Ernst & Whinney

1979 Financial Reporting

TRENDS

Motor Carrier

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1979 Financial Reporting Trends

Motor Carrier

1979

A survey of motor carrier industry operating results and financial reporting practices as disclosed in 1978 published annual reports.

E & W No. T-58012

Other Ernst & Whinney Financial Reporting Trends publications:

Banking 1979
Fire & Casualty Insurance 1979
Life Insurance 1979
Savings and Loan 1979

Foreword

This year's edition provides a source of information on current motor carrier financial data and financial reporting practices as disclosed in published 1978 annual reports to stockholders. The survey is descriptive, not analytical; no recommendations are made with respect to the form and content of annual reports.

This publication describes reporting practices unique to the motor carrier industry as well as others which are not peculiar to the industry but which have an effect on motor carrier financial reporting practices.

The list of companies participating in the survey (page 106) includes a cross-reference showing the pages which contain excerpts from each company's annual report.

Ernst & Whinney Transportation Committee, 1979.

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Section A

General

Introduction

Survey Methods 1978 published annual reports were requested from publicly-held motor carriers and holding companies with significant motor carrier subsidiaries. The information contained herein was summarized from the 47 reports received. The companies' names are shown on page 106.

Examples have been extracted from the financial statements and related footnotes. We did not include material in president's letters or elsewhere, unless otherwise indicated, except that supplementary data was used if available in the case of holding companies with motor carrier operations.

Certain tables for operating data have been segregated into separate tabluations for companies with and without significant noncarrier operations wherever the data for comparability was not available. Data relating to motor carrier revenues was available either in the financial statements, business segment footnote, or supplementary financial data. For companies with significant noncarrier operations, identifiable motor carrier assets were obtained from the business segment footnote, where available. While several conglomerates disclosed the contribution made to net income by motor carrier operations either before administrative charges or before income taxes, the contribution to net income was generally not disclosed. Accordingly, financial information not identifiable to motor carrier operations is segregated in the accompanying schedules of total assets, net income, and primary net income per share, where appropriate.

A summary of the reporting practices of the motor carriers, including those with significant noncarrier operations, shows that generally the reports are prepared on a fully consolidated basis.

	Subsidiary Reporting	
	Fully Consolidated	"One-Line" Equity Consolidation
Common carrier with no significant noncarrier operations	26	7*
Common carrier with significant noncarrier operations	6	1**
Noncarrier company with common carrier operations	4	1***
Other	****	

Survey Companies Table 1 reports aggregate financial data for fiscal year 1978 of the companies included in the survey. The data was accumulated from the separate financial statements of the companies included in the survey. Table 2 indicates where the shares of the 47 survey companies are traded.

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* All motor carrier operations fully consolidated, but insurance subsidiary excluded and some 20-50% owned subsidiaries reported on one-line equity basis.

** All motor carrier operations fully consolidated, but finance subsidiary excluded.

*** All motor carrier operations fully consolidated except some 20-50% owned subsidiaries reported on one-line equity basis.

**** Two of the survey companies have no affiliate operations and were therefore excluded from the above captions.

TABLE 1. AGGREGATE FINANCIAL DATA FOR SURVEY COMPANIES (in thousands of dollars)

	Primary Carrier Companies	Companies With Significant Noncarrier Operations	Total Survey Companies
Current assets	$1,129,095	$2,609,768	$ 3,738,863
Total assets	3,176,344	8,884,094	12,060,438
Current liabilities	847,528	2,104,528	2,952,056
Working capital	281,567	505,240	786,807
Long-term debt	621,567	2,633,525	3,255,092
Shareholders'equity	1,421,351	2,929,807	4,351,158
Revenues	6,502,892	3,518,222*	10,021,114
Net income	204,881	462,568	866,594

*Includes only carrier operating revenues.

TABLE 2. WHERE SHARES ARE TRADED

Number of companies* included in survey whose shares are traded on:

New York Stock Exchange	15
American Stock Exchange	6
Pacific Stock Exchange	6
Midwest Stock Exchange	3
Over the counter	22

*Certain companies are traded on more than one exchange.

Limitations of Survey Data Financial reporting practices of motor carrier companies and holding companies with motor carrier operations are diverse and do not readily lend themselves to precise classification. As a result, assumptions, conventions, and interpretations were necessary to reduce the data to meaningful summaries. All data must be qualified by this condition.

While the data and examples contained in the survey have been checked, no responsibility is assumed or implied for the reliability of such information.

The statistics shown in the tables and the examples of report presentation are not presented as recommended accounting or disclosure practices; they are presented as a matter of information or illustration only.

Examples from company annual reports included in this survey were chosen to illustrate specific accounting or disclosure practices. Such examples have been taken out of context and may have been edited to eliminate material not specifically related to the accounting or disclosure practice under discussion. In addition, all examples have been reduced to a uniform format for this survey.

EXAMPLES CONTAINED HEREIN DO NOT PURPORT TO REPRODUCE PRECISELY WHAT WAS CONTAINED IN THE ORIGINAL REPORT, AND SINCE SUCH EXAMPLES HAVE BEEN TAKEN OUT OF CONTEXT, THEY SHOULD NOT BE REGARDED AS REPRESENTING APPROPRIATE DISCLOSURE FROM THE POINT OF VIEW OF THE FINANCIAL STATEMENTS TAKEN AS A WHOLE.

Accounting Practices

The motor carrier industry is regulated by the Interstate Commerce Commission (ICC) and, accordingly, the industry's accounting practices and reporting trends reflect such regulatory influence. During recent years, the ICC has adopted various accounting regulations and amended others, thereby substantially reducing the difference between generally accepted accounting principles and ICC accounting practices. See Section C ("Current ICC Developments") for a discussion of changes occurring during the past year and their impact on the accounting practices.

General Report Characteristics

Size of Report and Space Devoted to Formal Financial Statements Table 3 indicates the size of 1978 annual reports and the number of pages devoted to financial statements. Seventy-nine percent of the reports contained 15 pages or more. The survey companies devoted more than 41 percent of their report pages to financial statements.

TABLE 3. SIZE OF REPORTS AND SPACE DEVOTED TO FORMAL FINANCIAL STATEMENTS

	No. of Survey Companies		No. of Survey Companies
Total pages in annual report:		Financial statement pages in annual report:	
8 to 14 pages	10	6 to 8 pages	17
15 to 19 pages	9	9 to 11 pages	21
20 to 24 pages	13	12 to 14 pages	7
25 to 29 pages	4	15 to 17 pages	2
30 to 34 pages	3		
Over 34	8		

Notes to Financial Statements An integral part of the financial statements is the notes. These contain detailed disclosures of certain financial information not readily discernible from the balance sheet, income statement or statement of changes in financial position. Table 4 indicates the type of information included in the notes to financial statements presented by the survey companies.

TABLE 4. NOTES TO FINANCIAL STATEMENTS

Types of Footnotes	No. of Survey Companies	Types of Footnotes	No. of Survey Companies
Accounting policies*	47	Acquisitions or dispositions	23
Notes payable and long-term debt	45	Subsequent events	9
Income taxes	47	Property, plant and equipment	7
Pension, profit sharing or retirement plans	43	Notes and accounts receivable	3
Leases	26		

TABLE 4. NOTES TO FINANCIAL STATEMENTS

Types of Footnotes	No. of Survey Companies	Types of Footnotes	No. of Survey Companies
Commitments, including leases	19	Inventories	9
Commitments and contingencies	15	Supplemental income statement information	3
Litigation	21	Regulatory matters	3
Stock options	27	Reclassification of prior year	2
Shareholders' equity, including stock options	17	Replacement cost	12
Earnings per share	6	Intangibles	3
Investments	10	Stock repurchase agreement	3
Quarterly data	37	Change in accounting method or principle	7
Business segment data	25	Transactions with affiliates	3
Self insurance accruals	5		

Footnotes appearing in only one report have not been listed.

*See Section H for discussion of accounting policies noted in survey companies.

Dissemination of annual reports on Form 10-K

For fiscal periods ending on or after October 1, 1977, companies previously filing annual reports on Form 12-K, and other regulatory agency reports in lieu of Part I of Form 10-Q are now required to file annual reports on Form 10-K and quarterly reports on Form 10-Q, pursuant to Securities and Exchange Commission Release No. 34-13477.

The Securities and Exchange Commission's (SEC) rules require that management's proxy statement or annual report to shareholders contain an offer to provide without charge to shareholders, a copy of the issuer's annual report on Form 10-K.

Approximately 64 percent of the survey companies included an offer in the annual shareholder report to send the reader a Form 10-K. Two of the companies included Form 10-K in their annual shareholders' report. It is assumed that the remainder of the survey companies included such a notice in their proxy statement or were otherwise exempt.

EXAMPLES Offer to supply Form 10-K

COOPER-JARRET, INC.
(Inside front cover)

FORM 10-K: Available to shareholders

A copy of the Company's 1978 annual report on Form 10-K, including financial statements and schedules, as filed with the Securities and Exchange Commission, will be made available free of charge to Cooper-Jarrett shareholders. Copies of exhibits attached to the Form 10-K will also be made available at a charge. Requests should be addressed to the Controller of the Company: Hanover Plaza, Morristown, New Jersey 07960

EAZOR EXPRESS, INC.
(Page 12)

EAZOR EXPRESS, INC. will furnish to any Shareholder without charge a copy of its most recent annual report on Form 10-K as filed with the Securities and Exchange Commission. Written requests should be directed to Eazor Express, Inc., Attention: Secretary's Office, Eazor Square, Pittsburgh, Pa. 15201.

MID-AMERICAN LINES, INC.
(Page 14)

Shareholders may receive without charge a copy of the Mid-American Lines, Inc. 1978 10-K Annual Report as filed with The Securities and Exchange Commission upon submission of an appropriate written request to the Secretary-Treasurer.

Survey Company Year Ends

The following is a summary of the various year ends of the survey companies used for reporting to shareholders. The ICC requires reports submitted to them to be based on a year ending on December 31 or four thirteen week periods, ending on one of the last seven days of the calendar year. Although the ICC books must be maintained on the aforementioned calendar year end, Motor Carriers may report to shareholders based upon a more appropriate natural year end. The fiscal year ends used by the survey companies in reporting to shareholders follows:

Year Ending	No. of Survey Companies
December 31	35
52 or 53 weeks ending in late December	8
June 30	2
September 30	2

Section B

Motor Carrier Operating Results

Revenues

	Rank		Revenues (000)		Percent
	1978	1977	1978	1977	Change
Roadway Express, Inc.	1	1	$985,171	$802,013	22.8%
Consolidated Freightways, Inc.	2	2	805,897	653,358	23.3
IU International Corporation	3	4	798,002	637,652	25.1
Yellow Freight System, Inc	4	3	780,786	647,865	20.5
Leaseway Transportation Corp.	5	5	573,700	497,400	15.3
PepsiCo., Inc.	6	6	501,100	444,300	12.8
McLean Trucking Company	7	7	493,696	437,191	12.9
Allied Van Lines, Inc.	8	8	364,269	324,673	12.2
Spector Industries, Inc.	9	9	290,741	252,678	15.1
Smith's Transfer Corporation	10	12	251,998	193,199	30.4
Ryder System, Inc.	11	11	239,705	196,129	22.2
Transcon Lines	12	13	228,751	189,672	20.6
Bekins Company	13	10	224,291	199,828	12.2
Mayflower Corporation	14	14	206,713	189,409	9.1
Overnite Transportation Company	15	16	195,334	156,283	25.0
Carolina Freight Carriers Corp.	16	15	190,566	156,251	21.8
T.I.M.E.--DC, Inc.*	17	17	177,074	154,448	14.7
Chemical Leaman Corporation	18	18	165,786	136,772	21.2
Wilson Freight Company	19	19	159,004	127,122	25.1
RLC Corp.	20	21	150,976	124,440	21.3
Gateway Transportation Co., Inc.	21	20	147,691	125,152	18.0
Preston Trucking Company, Inc.	22	22	145,270	122,123	19.0
Associated Freightways, Inc.	23	23	141,073	116,858	20.7
Arkansas Best Corporation	24	25	138,313	113,719	21.6
Delta California Industries	25	24	136,137	116,069	17.3
TeleCom Corporation	26	27	126,228	99,765	26.5
U.S. Truck Lines, Inc. of Delaware	27	26	121,311	108,077	12.2
Tri-State Motor Transit Co.	28	29	89,435	76,884	16.3
CW Transport, Inc.	29	30	86,034	75,720	13.6
Banner Industries, Inc.	30	35	84,495	61,617	37.1

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* T.I.M.E.--DC, Inc. is a subsidiary of National City Lines, Inc. Although the two companies issue separate annual reports, National City Lines, Inc. was not included in the above revenue ranking because its only carrier operations are those of T.I.M.E.--DC, Inc.

	Rank		Revenues (000)		Percent
	1978	1977	1978	1977	Change
Merchants, Inc.	31	31	$ 81,277	71,744	13.3%
Briggs Transportation Co.	32	33	78,015	66,401	17.5
Coastal Industries, Inc.	33	32	76,863	67,011	14.7
Cooper-Jarrett, Inc.	34	28	76,480	77,510	(1.3)
Murphy Motor Freight Lines, Inc.	35	34	74,704	63,991	16.7
Woods Corporation	36	36	60,468	56,685	21.5
Graves Truck Line, Inc.	37	38	60,361	49,679	21.5
Eazor Express, Inc.	38	37	60,270	55,219	9.1
Midwestern Distribution, Inc.	39	39	59,491	47,261	25.9
Mid-American Lines, Inc.	40	40	49,092	45,728	7.4
F-B Truck Line Company	41	42	37,126	24,965	48.7
Lynden Transport, Inc.	42	41	32,390	25,086	29.1
Liquid Transporters, Inc.	43	45	25,400	23,035	10.3
Flexi-Van Corporation	44	44	24,798	23,070	7.5
Republic Van Lines	45	43	23,433	23,881	(1.9)
Penn Yan Express, Inc.	46	46	18,134	16,982	6.8

Total Assets

	Rank		Amounts (000)		Percent
	1978	1977	1978	1977	Change
Roadway Express, Inc.	1	1	$496,775	$398,861	24.5%
Yellow Freight System, Inc.	2	2	400,725	353,364	13.4
Consolidated Freightways, Inc.	3	3	384,788	314,098	22.5
IU International Corporation	4	4	321,857	266,726	20.7
PepsiCo, Inc.	5	5	279,900	264,500	5.8
Leaseway Transportation Corp.	6	6	265,300	211,800	25.3
McLean Trucking Company	7	7	221,543	179,585	23.4
Smith's Transfer Corporation	8	8	170,143	126,667	34.3
Spector Industries, Inc.	9	9	144,054	105,853	36.1
Arkansas Best Corporation	10	23	137,388	50,216	173.6
Overnite Transportation Company	11	10	114,794	96,372	19.1
Transcon Lines	12	11	111,126	91,648	21.3
Chemical Leaman Corporation	13	12	111,009	90,895	22.1
Bekins Company	14	14	100,187	82,794	21.0
Ryder System, Inc.	15	16	99,004	82,410	20.1

(A) Information not available.

(C) Percent change not calculated as only one year's data is available.

(D) National City Lines, Inc., a 78.9% owner of T.I.M.E.--DC, Inc. was not included in the asset ranking because the only carrier operations of National City Lines, Inc. are those of T.I.M.E.--DC, Inc.

	Rank		Amounts (000)		Percent
	1978	1977	1978	1977	Change
RLC Corporation	16		$ 96,917	(A)	(C)
T.I.M.E.--DC, Inc.	17	13	40,527(D)	$ 86,137(D)	5.1
U.S. Truck Lines, Inc. of Delaware	18	15	89,150	83,591	6.7
Preston Trucking Company, Inc.	19	17	81,751	70,438	16.1
Carolina Freight Carriers Corporation	20	18	79,239	67,588	17.2
TeleCom Corporation	21	19	75,552	66,584	13.5%
Wilson Freight Company	22	21	68,361	53,659	27.4
Gateway Transportation Co., Inc.	23	20	67,957	63,863	6.4
Associated Freightways, Inc.	24	25	65,014	46,160	40.8
Allied Van Lines, Inc.	25	24	60,316	48,568	24.2
Mayflower Corporation	26	22	55,480	50,290	10.3
CW Transport, Inc.	27	26	44,711	40,927	9.2
Coastal Industries, Inc.	28	28	42,890	36,561	17.3
Tri-State Motor Transit Co.	29	27	40,847	36,832	10.9
Woods Corporation	30	31	36,838	31,675	16.3
Murphy Motor Freight Lines, Inc.	31	30	36,435	31,971	14.0
Banner Industries, Inc.	32		34,943	(B)	(C)
Briggs Transportation Co.	33	33	34,849	31,003	12.4
Merchants, Inc.	34	32	33,932	31,496	7.7
Graves Truck Line, Inc.	35	34	33,748	29,641	13.9
Midwestern Distribution, Inc.	36		33,560	25,248	32.9
Cooper-Jarrett, Inc.	37	29	32,007	34,567	(7.4)
Eazor Express, Inc.	38	35	28,692	25,266	13.6
Delta California Industries	39	37	23,343	22,911	1.9
F-B Truck Line Company	40	42	18,402	13,665	34.7
Lynden Transport, Inc.	41	39	18,089	16,039	12.8
Liquid Transporters, Inc.	42	40	16,086	14,583	10.3
Mid-American Lines, Inc.	43	38	16,042	17,571	(8.7)
Penn Yan Express, Inc.	44	41	14,726	13,877	6.1
Flexi-Van Corporation	45	43	8,658	8,705	(.5)
Republic Van Lines	46	44	7,686	6,201	23.9

(A) Information not available.

(B) Company has significant non-carrier revenue and did not segregate carrier assets in 1977.

(C) Percent change not calculated as only one year's data is available.

(D) National City Lines, Inc., a 78.9% owner of T.I.M.E.--DC, Inc. was not included in the asset ranking because the only carrier operations of National City Lines, Inc. are those of T.I.M.E.--DC, Inc.

Net Income

	Rank		Net Income (000)		Percent
	1978	1977	1978	1977	Change
Roadway Express, Inc.	1	1	$ 56,917	$ 46,646	22.0%
Yellow Freight System, Inc.	2	2	39,025	37,625	3.7
McLean Trucking Company	3	3	15,416	15,301	.7
Overnite Transportation Company	4	4	13,593	12,102	12.3
U.S. Truck Lines, Inc. of Delaware	5	6	10,230	7,626	34.1
Smith's Transfer Corporation	6	5	9,302	9,020	3.1
Chemical Leaman Corporation	7	8	7,081	5,427	30.5
Preston Trucking Company, Inc.	8	7	7,038	6,593	6.7
Spector Industries, Inc.	9	11	5,427	3,732	45.4
Transcon Lines	10	13	5,302	3,303	60.5
Associated Freightways, Inc.	11	10	4,506	4,305	4.7
T.I.M.E.--DC, Inc.**	12	18	4,044	2,470	63.7
CW Transport Inc.	13	19	3,634	2,411	50.7
Carolina Freight Carriers Corporation	14	17	3,583	2,700	32.7
National City Lines, Inc.	15	26	3,482	1,080	222.4
Mayflower Corporation	16	9	3,134	4,625	(32.2)
TeleCom Corporation	17	12	3,007	3,369	(10.7)
Graves Truck Lines, Inc.	18	14	2,904	2,995	(3.0)
Tri-State Motor Transit Co.	19	15	2,755	2,857	(3.6)
Delta California Industries	20	33	2,556	132	***
Murphy Motor Freight Lines, Inc.	21	20	2,271	2,067	9.9
F-B Truck Line Company	22	25	1,659	1,245	33.3
Coastal Industries, Inc.	23	23	1,556	1,523	2.2
Liquid Transporters, Inc.	24	24	1,122	1,503	(25.3)
Eazor Express, Inc.	25	27	755	875	(13.7)
Lynden Transport, Inc.	26	29	648	419	54.7
Briggs Transportation Co.	27	31	468	346	35.3
Penn Yan Express, Inc.	28	28	303	602	(49.7)
Bekins Company	29	16	95	2,800	(96.6)
Mid-American Lines, Inc.	30	30	(54)	412	*
Allied Van Lines, Inc.	31	21	(246)	1,930	*
Republic Van Lines	32	35	(1,167)	(1,654)	29.4
Gateway Transportation Co., Inc.	33	34	(1,547)	(320)	(383.4)
Cooper-Jarrett, Inc.	34	32	(1,718)	205	*
Wilson Freight Company	35	22	(2,200)	1,842	*

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* Due to fluctuation during years between net income and net loss, no percentage change was computed.

** T.I.M.E.--DC, Inc. is a subsidiary of National City Lines, Inc., another company included in our survey. Although the two companies issue separate annual reports, National City Lines, Inc. was not included in the above net income ranking because its only carrier operations are those of T.I.M.E.--DC, Inc.

*** Due to extreme fluctuation during years, no percentage change was computed.

Companies With Significant Non-Carrier Operations

	Net Income (000)		Percent
	1978	1977	Change
PepsiCo, Inc.	$225,769	$196,741	14.8%
Consolidated Freightways, Inc.	62,007	52,500	18.1
Ryder System, Inc.	55,342	40,681	36.0
Leaseway Transportation Corp.	39,485	32,348	22.1
RLC Corp.	22,198	16,982	30.7
Flexi-Van Corporation	20,505	18,166	12.9
IU International Corporation	12,060	58,876	(79.5)
Arkansas Best Corporation	8,955	7,400	20.9
Merchants, Inc.	7,702	5,801	32.8
Banner Industries, Inc.	3,003	4,222	(28.9)
Midwestern Distribution, Inc.	2,914	2,808	3.8
Woods Corporation	2,628	4,247	(38.1)

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* Due to fluctuation during years between net income and net loss, no percentage change was computed.

** T.I.M.E.--DC, Inc. is a subsidiary of National City Lines, Inc., another company included in our survey. Although the two companies issue separate annual reports, National City Lines, Inc. was not included in the above net income ranking because its only carrier operations are those of T.I.M.E.--DC, Inc.

*** Due to extreme fluctuation during years, no percentage change was computed.

Primary Net Income Per Share

	Primary Net Income Per Share Rank		Primary Net Income Per Share						
	1978	1977	1978 Before Other Items	Other Items	Net Income	1977 Before Other Items	Other Items	Net Income	Percent Change
Chemical Leaman Tank Lines, Inc.	1	1	$ 5.42		$ 5.42	$ 4.16		$ 4.16	30.3%
CW Transport, Inc.	2	4	4.68	.46E	5.14	3.07		3.07	67.4
Overnite Transportation Company	3	2	4.26		4.26	3.81		3.81	11.8
Smith's Transfer Company	4	3	3.69		3.69	3.59		3.59	2.8
Spector Industries, Inc.	5	10	2.93		2.93	2.06		2.06	42.2
Roadway Express, Inc.	6	8	2.78		2.78	2.28		2.28	21.9
McLean Trucking Company	7	5	2.74		2.74	2.73		2.73	.4
Yellow Freight System, Inc.	8	6	2.73		2.73	2.63		2.63	3.8
F-B Truck Line Company	9	12	2.47		2.47	1.88		1.88	31.4
U.S. Truck Lines, Inc. of Delaware	10	14	2.28		2.28	1.70		1.70	34.1
Preston Trucking Company, Inc.	11	9	2.24		2.24	2.10		2.10	6.7
Tri-State Motor Transit Co.	12	11	2.07		2.07	2.02		2.02	2.5
Delta California Industries	13	30	1.77		1.77	.90	(.81)A	.09	**
Murphy Motor Freight Lines, Inc.	14	17	1.76		1.76	1.30		1.30	35.4
National City Lines, Inc.	15	27	1.71		1.71	.56		.56	205.4
Transcon Lines	16	21	1.70		1.70	1.06		1.06	60.4
Carolina Freight Carriers Corporation	17	19	1.65		1.65	1.26		1.26	31.0
Mayflower Corporation	18	7	1.61		1.61	2.25	.13C	2.38	(32.4)
TeleCom Corporation	19	13	1.58		1.58	1.80		1.80	(12.2)
Liquid Transporters, Inc.	20	9	1.55		1.55	2.10		2.10	(26.2)
Coastal Industries, Inc.	21	18	1.31		1.31	1.27		1.27	3.2
Lynden Transport, Inc.	22	23	1.29		1.29	.82		.82	57.3
T.I.M.E.--DC, Inc.	23	24	1.21		1.21	.74		.74	63.5
Eazor Express, Inc.	24	22	.75		.75	.87		.87	13.8
Penn Yan Express, Inc.	25	16	.70		.70	1.36		1.36	(48.5)

** Due to significant fluctuation during years, no percentage change was calculated.
A Discontinued Operations.
C Effect of an accounting change regarding revenue recognition date.
E Extraordinary Item.

	Primary Net Income Per Share Rank		Primary Net Income Per Share						
	1978	1977	1978 Before Other Items	Other Items	Net Income	1977 Before Other Items	Other Items	Net Income	Percent Change
Briggs Transportation Co.	26	28	$ .37		$ .37	$ .28		$ .28	32.1%
Bekins Company	27	24	.02		.02	.74		.74	(97.3)
Mid-American Lines, Inc.	28	26	(.08)		(.08)	.60		.60	*
Allied Van Lines, Inc.	29	15	(.20)		(.20)	1.57		1.57	*
Gateway Transportation Co., Inc.	30	31	(1.31)	.13D	(1.18)	(.56)	.32D	(.24)	(391.7)
Wilson Freight Company	31	20	(1.30)		(1.30)	1.09		1.09	*
Republic Van Lines	32	32	(1.33)		(1.33)	(1.88)		(1.88)	29.3
Cooper-Jarrett, Inc.	33	29	(2.28)		(2.28)	.27		.27	*
Companies With Significant Non-Carrier Operations									
Consolidated Freightways, Inc.			$ 4.82		$ 4.82	$ 4.24		$ 4.24	13.7%
Ryder System, Inc.			3.60		3.60	2.73		2.73	31.9
Merchants, Inc.			3.53		3.53	2.66		2.66	32.7
Flexi-Van Corporation			3.47		3.47	3.02		3.02	14.9
Leaseway Transportation Corp.			3.34		3.34	2.75		2.75	21.5
RLC Corp.			2.75	.18A	2.93	2.22	.15A	2.37	1.8
PepsiCo, Inc.			2.43		2.43	2.14		2.14	13.6
Arkansas Best Corporation			2.34		2.34	1.96		1.96	13.6
Midwestern Distribution, Inc.			1.66		1.66	1.60		1.60	3.8
Woods Corporation				1.68A (.79)B	.89		1.45A	1.45	(38.6)
Banner Industries, Inc.			.75		.75	1.04		1.04	(27.9)
IU International Corporation			.30		.30	1.74		1.74	(82.8)

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* Due to fluctuation during years between net income and net loss, no percentage change was calculated.

** Due to significant fluctuation during years, no percentage change was calculated.

A Discontinued Operations.

B Provision for estimated loss on sale of assets.

C Effect of an accounting change regarding revenue recognition date.

D Undistributed earnings of insurance subsidiary.

E Extraordinary Item.

Current ICC Developments

ICC Adopts New Rules for Motor Carrier Contracts with Owner—Operators

The ICC has adopted these new rules in an effort to provide owner-operators with a clear understanding of amounts due them under lease contracts. The leases must clearly show the compensation due the owner-operator; the allocation between the parties of the costs of various operating expenses, such as fuel, permits and licenses; all items that may be charged back to the owner-operator; responsibility of each party with respect to insurance costs; and the terms of any equipment purchase plan or rental contract that gives the carrier the right to make deductions from the owner-operator's compensation.

Carriers must provide owner-operators with copies of rated freight bills and with all of the contract documentation necessary for the owner-operators to determine what their share of the contract should be. Payment of compensation is to be made within fifteen days after the owner-operator submits all required paper work to the carrier.

In addition, the ICC adopted provisions relating to the handling and return of any escrow funds held by the carrier. Interest must be paid on portions of outstanding escrow funds; the funds are to be returned within forty-five days of termination of the agreement; and the owner-operator must receive a full explanation as to escrow fund transactions and deductions.

Accounting and Reporting Rules for Prior Period Adjustments as Revised

The ICC has revised its accounting and reporting rules for prior period adjustments to reflect the provisions required by Financial Accounting Standards Board Statement No. 16, "Prior Period Adjustments". This statement requires all items of profit or loss recognized in a fiscal year to be included in the determination of net income for that year. The only exceptions which should continue to be reported as prior period adjustments (i.e., charges or credits to beginning retained earnings), are corrections of errors in earlier statements and adjustments that result from realization of income tax benefits of pre-acquisition operating loss carryforwards of purchased subsidiaries. The new rules adopted by the ICC are effective for the year beginning January 1, 1978.

Reporting of Contributions to Employees Stock Ownership Plans

The ICC has ordered all Class I and Class II motor carriers, railroads, bus companies and freight forwarders to disclose in their annual reports the amount of additional contributions which they made to employees' stock ownership plans, as the result of their recognition of investment tax credits on their initial contributions to the plans. Such additional contributions are non-recoverable operating expenses and must be segregated for ratemaking purposes.

ICC Grants For-Hire Operating Authority to Private Carrier in "Toto" Decision

For forty years the ICC has followed the policy established in the Geraci Contract Carrier Application in 1938 in connection with granting a motor carrier permit to a private carrier. This policy was reversed in March, 1978 when the Commission granted for-hire authority to two small private carriers, Toto Purchasing and Supply Co. and Avon Corregated Corp.

The ICC's rationale was that the new policy would increase truck service options for shippers, and reduce empty backhauls. Private carriers, under this decision, would have to meet all the standards for common carriage, and would have to keep their for-hire and private operations separate.

Under the Geraci policy, the ICC would not grant a motor carrier certificate or permit to an applicant who intended to use it primarily for the carriage of its own goods and its own nontransportation business. The "Toto" policy is markedly different in that motor carrier operating authority can be granted to such an applicant; provided (1) that the standard criteria for motor common carrier applications or motor contract carrier applications, as the case may be, are met, and (2) that the applicant agrees to conduct its for-hire motor carrier activities and its other activities independently and to maintain separate records for each.

The "Toto" decision by the ICC was made despite unanimous opposition by the regulated for-hire motor carriers and the railroads and has been appealed to the Fifth Circuit Court of Appeals.

In connection with the "Toto" decision, the ICC has proposed a policy covering the issuance of debt obligations by the private/for-hire class of carriers. The proposed policy would not require ICC clearance of debt issues for "Toto" companies when the for-hire transportation portion of the business is not directly involved in the issuance, or when the issuance is not for a transportation related activity, unless the for-hire operations of the business are so extensive that they have a major impact on the transportation industry. Companies will be considered as "major", and therefore ICC approval required for their debt issues, whose for-hire revenues are the same as a Class I Carrier ($3 million a year).

The ICC's rules on debt issuances will be automatically waived for those "Toto" carriers with for-hire revenues of less than $3 million a year. Those with revenues in excess of $3 million but planning to borrow for nontransportation activities will be allowed to petition for a waiver of the filing requirements.

ICC Revises Forms For Applications in Finance Proceedings

The ICC has revised five forms used in motor carrier finance proceedings and reduced the number of copies applicants must file. The ICC said the changes will make the forms easier to understand and conform the forms to previous changes in statutes and regulations.

The following new forms must be used for applications filed on or after July 1, 1979:

OP-F-44, application to consolidate, merge, purchase or lease motor carrier operating rights and properties;

OP-F-45, application for authority to acquire control through stock ownership or other means;

OP-F-46, application for approval of temporary operation of a carrier sought to be acquired under separately filed applications, or of transfers of certificates or permits;

> OP-F-200, application for authority to issue securities or assume obligation or liability in regard to securities of another person;
>
> OP-F-210, special application for authority to sell securities without competitive bidding.

The number of copies to be filed with the commission has been reduced to an original and three copies in all cases. The previous requirement was for five copies plus the original.

Another change is a provision in all the forms, except OP-F-46, requiring the applicant to specify whether the proposed action is a major regulatory action under the Energy Policy and Conservation Act and to provide supplementary information where applicable.

ICC Proposed Disclosure of Depreciation Policy

Due to an increasing concern over excessive depreciation rates, the Commission has proposed an expansion in the disclosure of depreciation policies in the footnotes of motor carrier annual reports. This disclosure will be used to aid in rate making analysis and will assist the Commission in its evaluation of the need for prescribed depreciation rates.

The following excerpts were taken from the ICC Notice of Proposed Rule-making dated April 6, 1979:

> The Commission has become increasingly concerned with excessive depreciation rates used by motor carriers. The number of audit exceptions taken involving depreciation policies has subtantially increased. A growing number of motor carriers are using depreciation rates that materially exceed the practical life of the asset. As a result, depreciation expense is overstated and operating income is understated.
>
> The Commission does not prescribe depreciation rates for motor carriers. However, depreciation is an operating expense that can have a significant impact on a carrier's operating income and rate making. Excessive depreciation of operating equipment or property can lead to the imposition of higher rates. In order to facilitate rate making analysis and the evaluation of the impact of different depreciation policies on carrier financial statements more detailed disclosure is necessary.
>
> The Commission is also aware that certain State regulatory bodies are considering prescribing motor carrier depreciation rates as a result of excessive depreciation practices. With the additional depreciation policy disclosure, the Commission will be able to monitor depreciation policy and determine if there is a need for prescribed depreciation rates. If necessary, the Commission and State regulatory bodies could jointly prescribe rates to minimize the carriers' accounting and reporting burden.
>
> The Commission proposes to require the following disclosures to be added in the footnotes to the financial statements in Annual Report Form M and Form MP.
>
> Depreciation Policy for Carrier Operating Property
>
> a. Describe company's depreciation policy including maintenance policy towards revenue equipment, retention period for revenue equipment, and circumstances under which deviations from the prescribed depreciation policy would occur.

b. Describe how the service life and salvage value of depreciable assets is determined, and

c. Give the percentage of fully depreciated assets in these categories: (1) Structures, (2) Revenue equipment, and (3) Service cars and equipment.

Item (a) is designed to disclose the carrier's attitude toward fixed assets. For example, a management commitment to regularly scheduled maintenance programs and asset retention periods of long duration should be reflected in the depreciation rates. Excessive depreciation of assets should be minimal in these carriers. Item (b) is designed to disclose how depreciable asset lives and salvage values are determined. Carriers employing guidelines developed by the industry or Internal Revenue Service are less likely to have excessive depreciation. Carriers employing guidelines based on management profit objectives or other criteria instead of economic realities are more likely to have excessive depreciation policies. Item (c) will disclose the number of assets in use but fully depreciated. If the percentage of fully depreciated assets in service is large, this would be a strong indicator that the carrier's depreciation policy is excessive.

Section D

Other Developments and Trends

SECURITIES AND EXCHANGE COMMISSION

Management Reporting on Adequacy of System of Internal Control

The Securities and Exchange Commission, spurred by the Foreign Corrupt Practices Act, is moving rapidly in the direction of public reporting on the adequacy of internal accounting control. The SEC has proposed that management report on the adequacy of its system of internal controls beginning with fiscal years ending after December 15, 1979. The initial report would be included in each company's annual report to shareholders and in Form 10-K. This report would be required to state whether the companies' systems of internal control are sufficient as of year end to provide reasonable assurance that the objectives of the Foreign Corrupt Practices Act were achieved. In subsequent years, the report would cover the adequacy of internal controls for the entire year.

Involvement by independent accountants in the initial report is expected to be limited; however, subsequent reports would require an auditor's opinion on management's report on the adequacy of internal controls. Additional information may be obtained from the Ernst & Whinney publication "SEC Proposes Public Reporting on Internal Control" (E&W No. 39030).

Disclosure of Non-Audit Services: Accounting Service Release 250 and Staff Accounting Bulletin 25

ASR No. 250 amends the proxy rules to require information on the company's relationship with its independent accountants be included in proxy statements. Under the new requirements the following must be disclosed:

1. A list of all nonaudit services provided by the principal accountant.

2. The total fee for nonaudit services expressed as a percentage of the audit fee. The percentage relationships for nonaudit services with fees more than 3% of the audit fee should be separately disclosed.

3. A statement as to whether the audit committee (or full board if no audit committee exists) approved the nonaudit services in advance and considered the possible effects of these services on auditor independence.

4. The details of any services provided at rates or terms that were not "customary". Also, disclosure is required of any agreement to limit future audit fees, including fixed fee arrangements with no provision for renegotiation for unexpected accounting and auditing problems. Disclosure of fee estimates are not required.

Some of the many questions raised by ASR No. 250 are answered in SABs 25 and 33. In particular, the SABs deal with (1) classifying services between audit and nonaudit services, (2) the period in which services and fees should be reported, and (3) generic approval of services by an audit committee.

Redeemable Preferred Stock

Redeemable preferred stock has been used with increasing frequency to raise capital or acquire another business. Such issues have been classified as part of equity even though they may be repaid like long-term debt. Now the SEC has issued ASR No. 268 which provides for special balance sheet treatment to highlight the future cash obligations of this type of security until the FASB decides whether they are a liability. Questions of whether related payments are interest or dividends and if early extinguishments result in income statement gain or loss also are left to the FASB.

Only companies that have issued such securities are affected by the rules, which require the following separate categories in the equity section of the balance sheet: redeemable preferred stock--generally stock which must be redeemed or is redeemable at the option of the holder; non-redeemable at the option of the holder; non-redeemable preferred stock; common stock; and all other stockholders' equity accounts. Redeemable preferred stock cannot be included under the general title of "stockholders' equity" nor can the amounts related to it be included in a total dollar amount for stockholders' equity.

In addition to the usual disclosures (e.g., general description of issue, dividend rate) a separate note to the financial statements is now required to include any changes in the amounts outstanding (because the changes can no longer be presented in the statement of stockholders' equity), the redemption terms and the total redemption amount scheduled for each of the next five years, and the accounting treatment of the difference between carrying value and redemption amount.

The basis for calculating ratios and other information (e.g., tables and charts) using stockholders' equity has to be explained. And if the amounts of redeemable preferred stock are material, the ratio also should be presented as if such securities were accounted for as debt. However, redeemable preferred stock can be considered as part of stockholders' equity when making materiality computations for disclosure purposes.

The rules are effective for financial statements for periods ending on or after September 15, 1979. Prior financial statements, when presented for comparative purposes, must be reclassified to conform with the new rules.

Management Remuneration

Recognizing the complexities of today's executive compensation packages, the SEC has revised its rules for reporting officers' and directors' compensation in proxies and other filings, effective for fiscal years ending after December 25, 1978. For those executives and directors receiving over $50,000, details are required for the five highest-paid.

For the five highest-paid individuals, total compensation would be classified and reported in three amounts:

1. Current salary, fees, bonuses, commissions, and directors' fees.

2. Non-monetary compensation such as stock or other property distributed in the current year, personal benefits (perks), and any deferred compensation, the payment of which is not subject to future events. The spread between the market value and proceeds upon exercise of stock options also would be included in this figure even if no expense is recorded under GAAP.

3. Deferred compensation that is in part dependent on future events. Examples are estimated amounts expensed under retirement plans, deferred profit sharing, and stock appreciation rights. Amounts should be based on charges or credits to expense under generally accepted accounting principles.

Amounts included for perks should be based on their incremental cost to the company. If their actual value differs significantly from that cost, footnote disclosure of the actual value is required. Separate disclosure of perks for each individual and a description of them is required only if they exceed 10% of a person's total pay or $25,000, whichever is less. Most importantly, perks that are difficult to keep track of can be omitted if they are less than $10,000 per person.

Reconsideration of Form 10-K

The SEC is considering suggestions on improving Part I of the current Form 10-K, particularly whether it should be replaced by a version of the Form recommended by the Advisory Committee on Corporate Disclosure.

The main objective of the Committee's proposed version is to eliminate duplication and boilerplate disclosures. To accomplish this, the instructions would be considerable less detailed than present rules, allowing management some leeway in deciding what data is material and what is unnecessary. For example, the Committee's proposed Form does not have detailed instructions for describing the Company's business or explaining the results of operations. The Committee also encourages management to include forecasts and describe its plans and objectives.

No comments were requested on Part II of the current Form 10-K because of pending changes in the proxy rules, and comments on financial statements will not be asked for until the SEC Chief Accountant's office completes a review of Regulation S-X for possible changes.

FINANCIAL ACCOUNTING STANDARDS BOARD

Status of Proposal on Accounting for Service Transactions

In October 1978 the Financial Accounting Standards Board issued an invitation to comment on AcSec's proposed Statement of Position on accounting for Certain Service Transactions. The Board's staff analyzed the numerous comments received and concluded that there are significant problems in the proposal. The Board decided that rather than do anything further with the proposed Statement of Position, the topic would be added to the phase of the Conceptual Framework project dealing with criteria for accounting recognition. AcSec discussed its alternatives considering that there is likely to be a long passage of time before the Conceptual Framework project will be finalized. It concluded that rather than dealing with the broad conceptual issues for service industries, AcSec should attempt to determine which specific service industries, if any, have accounting issues which need to be addressed (e.g., industries that use more than one income recognition method or which follow a method that would "front end" income). A review of Table 24 in Section F--Income Statements of this publication indicates that the motor carrier industry will likely be considered by AcSec under its present approach of Accounting for Certain Service Transactions.

Accounting For Unused Investment Tax Credit-Interpretation 25

Federal income tax law changes in 1976 led some businesses to conclude that investment tax credit (ITC) carryforwards should follow APB Opinion No. 11 guidelines for recognizing tax benefits of operating loss carryforwards. This meant ITC would be recognized at the time related assets are acquired if future realization for tax purposes was believed to be assured.

However, in Interpretation No. 25 the FASB takes the view that the investment credit recognized for accounting purposes should be limited to the sum of (1) ITC that would be realized if taxes payable were based on book income adjusted for permanent differences, (2) ITC that can be carried back and realized on the tax return, and (3) ITC which offsets net deferred tax credits reversing in the carryforward period. Tax limitations on ITC amounts also must be considered in the computation. Unused ITC related to property acquisitions in fiscal years beginning before December 16, 1978 shall be accounted for using an enterprise's present method except that earlier application could be elected for those prior years for which financial statements have not been previously issued.

This Interpretation also provides that ITC carryforwards acquired in a business combination recorded under the purchase method should be recognized as a reduction of goodwill in the period they are realized for tax purposes. However, if no goodwill was recorded, the values assigned to noncurrent assets would be reduced, or a deferred credit recorded if non-current assets are all written off. The effects of these adjustments on provisions for amortization, depreciation, or depletion would be recognized prospectively. A company should apply the new rules prospectively regardless of the date the business combination occurred; earlier application in previously unissued financial statements is encouraged, but not required.

The Statement is effective for ITC arising in fiscal years beginning after December 15, 1978; earlier application in previously unissued financial statements is encouraged, but those that have already been issued are not to be restated.

New Standards For Lease Transactions

FASB Statement No. 26 resolves a conflict between Statement No. 13 on lease accounting and the AICPA industry accounting guide, "Accounting for Profit Recognition on Sales of Real Estate." The new Statement does this by amending Statement No. 13 to say that the requirements of the AICPA Guide must be met for full and immediate profit recognition. The Guide allows this recognition only when the down payment and subsequent payments meet specified tests and the seller's continuing involvement in the property is limited. Nearly all leases of real estate fall short of these requirements because of the absence of down payments. So no matter how they might qualify in other respects as sales-type leases, these must now be classified as operating leases. The Statement is effective for leasing transactions and lease agreement revisions recorded after September 30, 1979 and when Statement No. 13 is applied retroactively. For Statements 26, 27, 28 and 29, enterprises that have already applied Statement No. 13 retroactively in published annual financial statements prior to the effective date may (but are not required to) elect retroactive application.

FASB Statement No. 13 sand that renewals or extensions of leases occurring at or near the end of the lease term could not be classified as sales-type by lessors, even though they otherwise qualified. Statement No. 27 rescinds that restriction, allowing them to be classified as sales-type if they otherwise meet all the criteria. However, renewals or extensions occurring at earlier points in the lease still cannot qualify for sales-type treatment. The statement is effective for lease agreement renewals and extensions recorded after September 30, 1979 and when Statement No. 13 is applied retroactively.

FASB Statement No. 28 deals with a provision of Statement No. 13 that generally treats all sale and leaseback arrangements as inseparable financing transactions, with profit or loss deferred and amortized by the seller. Now, the new Statement says, when the seller wants to rent only a "minor" part of the property or only for a minor part of the property's useful life, the sale and leaseback are two separate transactions and any profit or loss is recognized at the selling date. ("Minor means the present value of the rentals is ten percent or less of the property's fair value.) However, if the rentals for the leased-back portion are unreasonable compared to current rental rates, an appropriate amount would be deferred or accrued. The Statement is effective for leasing transactions and lease agreement revisions recorded after August 31, 1979 and when Statement No. 13 is applied retroactively.

The definition of contingent rentals is clarified in Statement 29 to encourage more consistency in classifying leases. To the extent lease payments depend on factors that existed and were measurable as of the lease inception date, they are to be included in minimum lease payments--thus making it more likely the lease is a capital or sales-type rather than an operating lease. Payments based on such factors as the prime interest rate or consumer price index would be considered contingent only to the extent those factors subsequently changed.

On the other hand, lease payments that depend on future use of the property, such as the lessee's sales volume, would still be considered entirely contingent and are to be excluded from minimum lease payments. The statement is effective for leasing transactions and lease agreement revisions recorded after September 30, 1979 and when Statement No. 13 is applied retroactively.

Interpretation 27 said that losses on subleases entered into as part of a disposal of a segment should be considered in determining the overall gain or loss on the disposal as provided in APB Opinion No. 30. The sublease accounting provisions of Statement No. 13 do not preclude loss recognition. Several parties suggested that the Board should require recognition of all sublease losses, not just those included in gain or loss when operations are disposed of. The Board subsequently found no need to address this issue, since it believes the requirement to recognize losses on unfavorable contracts is well established in current practice. The Interpretation is effective for subleases recorded and measurement dates for disposals of segments of businesses after April 30, 1979 and when Statement No. 13 is applied retroactively.

Financial Reporting And Changing Prices

FASB Statement No. 33, "Financial Reporting and Changing Prices," issued in October 1979 is effective for fiscal years ending on or after December 25, 1979. However, current cost information for fiscal years ended before December 25, 1980 may be presented in the first annual report for a fiscal year ended on or after December 25, 1980. The Statement applies to public companies having $1 billion in assets or $125 million of inventories and gross properties (including investment real estate). However, all companies are encouraged to make the required disclosures.

The Statement establishes standards for reporting the effects of "general inflation" and changes in the prices of certain specific types of assets. General inflation is described as a rise in the general level of prices or a decline in the general purchasing power of the dollar. According to the Board, users of financial statements need information about measurements that are made in units having the same general purchasing power because conventional financial statements make no direct allowance for the variability of the monetary unit of measure. Thus the statement requires supplementary disclosure of net income using "constant dollar accounting" and the purchasing power gain or loss on net monetary items requires a classification of assets and liabilities as either monetary or nonmonetary items.

Companies are required to present a five-year summary of selected financial data to aid users in assessing trends. In addition to the required current year historical cost/constant dollar and current cost information previously discussed, this summary must include the following expressed in constant dollars:

Net assets at year-end. If material historical cost and current cost/constant dollar net asset amounts would also be required (net assets reported in the financial statements adjusted for the revised amounts of inventories and properties--including income producing properties).
Per share amounts of income from continuing operations. Again, if material historical cost and current cost/constant dollar computations would be required
Net revenues
Cash dividends per share
Market price per share at year-end
Average consumer price index

Only revenues, dividends, market price and consumer price index disclosures are required to be reported for years before 1979. Ernst & Whinney has prepared a publication (E&W No. 39111) to assist companies in complying with the disclosure requirements of the Statement.

Capitalization of Interest Costs

This proposal by the FASB would require interest to be capitalized as part of the cost of acquiring an asset if a significant period of time is required to bring the asset to a condition and location necessary for its intended use. The Board believes that this period should normally be at least a year; however, it may be shorter if the asset involves unusually large expenditures.

Interest capitalization would begin with the first expenditure related to the asset and would continue until the asset is substantially complete and ready for its intended use. The amount of interest capitalized during the period would be based on actual interest expense on debt and similar obligations and not any amounts related to equity. A direct relationship between the debt and the asset would not be necessary.

The final statement would be applied prospectively in fiscal years beginning after December 15, 1979. Asset cost in earlier years, whether or not interest were capitalized, would not be adjusted.

President Carter Announces His Deregulation Plans for the Motor Carrier Industry

President Carter has announced his plans for legislation to deregulate and to substantially reduce federal regulation over the motor carrier industry. The proposed legislation would remove immediately all backhaul restrictions and prohibitions on making intermediate stops, and gradually remove all other restrictions by December 1983. The legislation also proposes to liberalize certain restrictive entry standards, to expand the agricultural exemption in the law, to permit contract carriers to hold common carrier authority, and to remove certain unnecessary restrictions on freight forwarders. Among other things, it also proposes to repeal the special antitrust immunity given the motor carrier industry, and would subject the industry to the same antitrust laws that govern most other industries. The proposal also would encourage price competition by preventing the ICC from disapproving rates within a zone, and would also require the ICC to weigh possible anticompetitive effects of proposed mergers in the industry.

Executive Letters to Shareholders

Many of the "Executive Letters to Shareholders" included in the annual reports made mention of the economy and its impact on 1978 operations. Several of the messages stated that although winter weather conditions were again severe, record revenue and earnings levels were achieved. The upcoming labor negotiations with the Teamsters whose contract expired on March 31, 1979, current attempts to deregulate the motor carrier industry and rising fuel costs were frequent topics covered in the letters.

EXAMPLES **Excerpts from Executive Messages**

LEASEWAY TRANSPORTATION CORP.
(To Our Shareholders)

Continuing the strong revenue and earnings growth achieved each year since 1974, 1978 was clearly the most successful in Leaseway Transportation's history.

Net earnings increased 22 percent on a 17 percent increase in revenues. Returns on equity, operating capital and total capital met targeted levels.

These results are especially gratifying in view of developments affecting our business which were not uniformly favorable. The bad winter penalized our first quarter, the coal strike certainly didn't help us any, and we experienced various labor disruptions of our own which affected profits.

So the 1978 records are a testimonial to the underlying vitality and growing momentum of Leaseway Transportation's business. Particularly good operating results were achieved in leasing operations, and Anchor Motor Freight had a very good year. It is fair to say that, across our service lines, we improved our fundamental positions, and that we are going into 1979 stronger and better prepared than ever to take advantage of our growth opportunities.

In keeping with our stated goal of paying approximately 40 percent of prior year net earnings in dividends to shareholders, a cash dividend increase of 12.5 percent was authorized in November. At the same time, our common stock was split 3-for-2.

Cash dividends are now being paid at an annual rate of $1.20 per share on the increased number of shares, a yield of approximately 6 percent at current market. Our dividend payments have been stepped up every year for the last six years.

While we must recognize that our stated results, like those of all other businesses, are distorted by inflation, we nevertheless continue in a "real growth" situation, and I believe that Leaseway Transportation's shareholders participate in an unusual opportunity.

SMITH'S TRANSFER CORPORATION
(To the Stockholders)

We are expecting 1979 to be a pivotal year for the corporation. During the year, we may discover whether our industry is, or is not, to be regulated--or to what extent; whether our prices can continue to be adjusted to reflect changes in cost; and whether the industry can negotiate a labor contract that is satisfactory to our stockholders, our employees and the U.S. Government. These decisions are expected to be reached in an ominous economic atmosphere which is variously forecasted to include continuing inflation, possible recession, fuel shortages and high interest rates. However, we are neither alarmed nor pessimistic since we believe we are prepared for the various contingencies.

We have not become more conservative in philosophy, but we believe the current business and transportation environment dictates caution. There is sufficient external confusion and turmoil. We do not want to increase our risk by being overly aggressive. For the past year we have concentrated on developing increased internal strength. Major goals for 1978 were to assimilate and develop markets added through acquisitions, and to increase operating efficiency through an expanded breakbulk and road driver domicile system. In 1979, we plan to further develop our resources in anticipation of possible changes in our operating environment. No major market expansion was initiated last year, nor is any significant expansion intended for this year. Increased capital expenditures were necessary in 1978 to up-grade facilities in newly acquired areas. In 1979, expenditures will be reduced and we anticipate a positive internal cash flow.

Of all the unresolved questions involving the trucking industry's future, the possibility of some form of deregulation is the most serious. A bill sponsored by Senator Edward M. Kennedy proposes to eliminate collective rate-making. Other facets of regulation also have been attacked. Our position on regulation of the industry is discussed on page 9. The chance of success for any of the various deregulatory proposals is yet to be determined. Meanwhile, on its own, the industry is moving toward a more price competitive environment.

The ICC continues to change the nature of motor carrier regulation through re-interpretions of its Congressional mandate. In the last year the Commission has repeatedly acted to allow eased entry into the industry, and has reduced the scope of its own regulatory authority. The November decision of the ICC to rely on industry return-on-equity as the major criteria for evaluating general rate-increase proposals has great future significance. In ordering the Southern Motor Carriers Rate Conference (SMCRC) to reduce a proposed increase from 6.2 percent to 3.5 percent, the ICC stated that a 14.8 percent return-on-equity currently was adequte for the industry and would be its principal criteria for approving subsequent rate increases. In prior proceedings, the composite operating ratio (operating expenses/operating revenue) of the industry has been the primary yardstick for evaluating rate increases. The carriers, including Smith's Transfer, object both to the new criteria and to the method of its application. Appeals of the SMCRC order have been filed with the ICC and in the courts. Application of the ICC order has been temporarily stayed. The 6.2 percent increase granted in April remains in effect. If carrier appeals are unsuccessful, however, both the SMCRC rate increase and similar increases in other rate bureaus could be adjusted downward. It has been estimated that under the ICC's return-on-equity criteria for rate increases, one-third of all the regulated carriers would have operated unprofitably in 1978.

The ICC position on rate increases is especially significant because the industry's labor contracts with the International Brotherhood of Teamsters expire on March 31, 1979. Negotiations are proceeding toward a new contract. Historically, the ICC has allowed the industry to increase prices to compensate for higher wages negotiated in a new contract. The return-on-equity criteria would make a full pass-through of increased labor costs questionable. The Commission has already stated that it will be hesitant to allow any pass-through of increases in excess of the Administrations' current "voluntary" wage-price guidelines.

In spite of all the uncertainties surrounding us at this moment, our business remains good. We generated record earnings in 1978, despite a very poor first quarter. Our profit margins, while below 1977 levels, improved steadily during the year. More detailed comments on 1978 operating results and decisions can be found on page 5. A milder winter and improved internal controls have allowed initial 1979 operating revenues and profits to be significantly better than last year. Our first quater comparisions should be favorable.

Reflecting our improved results as the year progressed, the Board of Directors in August increased the Company's dividend rate per share from 17-1/2 cents to 20 cents quarterly. The dividend payout has now been increased in each of the last eleven years. Our dividend policy remains unchanged--to maintain the cash dividend payout at approximately 20 percent of earnings until we can reduce our reliance on debt capital.

ROADWAY EXPRESS, INC.
(Letter to Stockholders)

Roadway's net income in 1978 was $56,916,737 and revenue was $985,171,195. In 1977, the comparative figures were net income of $46,645,693 and revenue of $802,012,583. Net income was equal to $2.78 per share in 1978 and $2.28 per share in 1977, and dividends paid per share were $.55 and $.46-1/4 in the respective years. Revenue was 22.8% greater and tonnage 10.1% greater than in 1977.

Capital expenditures in 1978 for carrier operating property were $78,578,182 compared with $87,550,134 in 1977 which included acquisition of operating property from Western Gillette and Howard Hall Company. In 1978, expenditures for tractors, trailers and trucks aggregated $55,684,054, of which $35,936,339 was for replacements and $19,747,715 for net additions. Other capital expenditures amounted to $13,572,012 for terminal facilities, $6,039,189 for data processing and communications equipment and $3,282,927 for other equipment.

Capital expenditures for 1979 are projected at approximately $81 million, of which $53 million is for tractors, trailers and trucks, $18 million for terminal facilities, $7 million for data processing and communications equipment and $3 million for other equipment. These expenditures will be financed, as in 1978, from internally generated funds.

The prices of diesel fuel and gasoline have increased significantly in 1979 following moderate increases in 1978. Since March 1, 1979, the company has been on allocation from its major fuel suppliers, but has been able to secure the necessary diesel fuel and gasoline to supplement these allocations.

The present three year industry labor contract expires on March 31, 1979. Motor carrier and Teamster Union representatives are now negotiating a new industry labor contract. Any increase in labor costs will be partially offset by improved productivity resulting from the construction of additional modern terminal facilities and the purchase of larger capacity intercity trailers.

Roadway believes that excess government intervention in the affairs of private industry is one of the more serious problems facing the country today. However, we also believe there is a need for a continuation of reasonable regulation of the trucking industry. Freight rate reductions result from economies inherent in handling large volumes of freight. Unlike other industries, rate reductions will not materially increase demand for motor carrier service in the aggregate, since demand is related much more to the level of business activity in the country than to the level of freight rates. Unrestricted competition would dilute the available freight among too many carriers, creating higher costs for all. To the extent that deregulation raises carrier costs, rates would have to be increased, customer service reduced, or both. The present regulatory structure has provided the foundation for the finest motor carrier system in the world. Any proposed change should be based on a reasonable expectation that the American public will significantly benefit rather than just the opinion of some economists and a few very large shippers.

Major challenges for 1979 also include the control of costs in relation to the level of business, and the approval of compensatory freight rate increases by the ICC. With its financial strength and loyal and competent personnel and with the support of its customers and stockholders, Roadway will meet the challenges of the coming year.

TRI-STATE MOTOR TRANSIT CO.
(To our Stockholders)

Revenue reached $89,435,000 for 1978 compared with $76,884,000 for 1977. This is a new high for Tri-State and amounts to an increase of approximately 16% over 1977.

Earnings for 1978 were $2,755,000 or $2.07 per share compared with $2,857,000 or $2.02 per share last year. There were less shares outstanding in 1978 than in 1977.

Revenue for the fourth quarter of 1978 was $22,353,000 with earnings of $552,000 or 44 cents per share compared with $19,095,000 revenue with earnings of $451,000 or 29 cents per share for the same period in 1977.

Deregulation of the transportation industry has been proposed for airlines, railroads and motor carriers in varying degrees, from "partial deregulation" to "total deregulation." So far, nothing specific has been resolved to indicate what effect deregulation may have upon the regulated motor carrier industry or to what extent it may be deregulated.

Our Company has grown in revenue from $639,623 in 1958 to the threshold of $100,000,000 in 1978 by providing good dependable service of the type our customers require. It does not seem possible that even total deregulation would change these customer requirements. With this belief in mind, Tri-State will continue its policy to give the best service possible to our customers and hope that this will make possible our continued progress in the future.

Two of three applications for the purchase of additional heavy hauling operating authority have been approved by the Interstate Commerce Commission and consummated. Colonial Fast Freight Lines, Inc. remains the only Tri-State purchase pending final action of the ICC.

Several applications seeking additional operating authority were granted by the ICC during 1978. These grants further diversify the commodities our Company is authorized to transport. Extensions to existing operating authorities were also granted to provide Tri-State service in areas in which we were not certificated to operate.

Many applications seeking additional authorities are presently on file with the ICC and are being processed by the Commission.

Management's Discussion and Analysis of Operations

Table 5 indicates the additional disclosure requirements the survey companies included in their 1978 reports as a result of ASR No. 159 and SEC Release No. 34-11079.

TABLE 5. DISCLOSURE OF MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE SUMMARY OF OPERATIONS

	No. of Survey Companies
Discussion covers the three most recent years	41
Discussion covers only the current year	3
Discussion not included in shareholders' report	3
	47

EXAMPLES Management's discussion and analysis of operations

IU INTERNATIONAL CORPORATION
(Ten-Year Financial Summary)

In millions, except per share data

	1978	1977	1976	1975	1974	. . .	1969
Operations summary							
Revenues and other income	$2,567.3	$2,285.9	$1,965.3	$1,831.3	$1,983.6		$ 904.4
Cost of sales, other costs and expenses	2,377.8	2,080.1	1,823.5	1,655.3	1,757.6		818.5
Earnings before interest, foreign currency adjustments and taxes	189.5	205.8	141.8	176.0	226.0		85.9
Interest and debt expense	104.8	96.1	70.1	60.0	68.5		34.9
Foreign currency adjustments	(11.0)	(14.4)	1.4	(7.1)	(2.0)		-
Income taxes	51.9	38.5	19.6	27.8	53.1		16.2
Minority interest	31.7	26.7	7.6	14.9	20.6		7.0
Earnings from operations	$ 12.1	$ 58.9	$ 43.1	$ 80.4	$ 85.8		$ 27.8
Net earnings	$ 12.1	$ 58.9	$ 43.1	$ 80.4	$ 85.8		$ 38.7
Earnings per share							
Primary:							
Earnings from operations	$ .30	$ 1.74	$ 1.27	$ 2.44	$ 2.62		$ .94
Net earnings	$ .30	$ 1.74	$ 1.27	$ 2.44	$ 2.62		$ 1.31
Assuming full dilution:							
Earnings from operations	$ .29	$ 1.65	$ 1.19	$ 2.26	$ 2.38		$ .76
Net earnings	$ .29	$ 1.65	$ 1.19	$ 2.26	$ 2.38		$ 1.06
Other per share data							
Dividends per common share	$ .925	$ .90	$ .875	$ .85	$ .80		$ .65
Shareholders' equity	$ 18.11	$ 19.08	$ 18.17	$ 17.85	$ 16.40		$ 10.34
Year-end closing price of common stock	10-1/4	11-1/4	11-7/8	9-3/4	8-5/8		12-3/16
Financial position							
Total assets	$2,793.5	$2,704.0	$2,444.5	$2,161.5	$2,038.9		$1,287.8
Total debt	$1,087.8	$1,238.2	$1,106.2	$927.6	$888.5		$578.6
Minority interest in subsidiaries	$348.0	$265.5	$228.1	$167.6	$124.6		$115.0
Shareholders' equity	$666.9	$655.1	$622.7	$607.4	$555.0		$354.7
Other statistics							
Property, plant and equipment	$2,221.1	$2,110.9	$1,912.6	$1,763.1	$1,645.5		$1,011.6
Capital expenditures	$248.6	$306.7	$205.5	$300.1	$252.7		$149.6
Average common and common equivalent shares	33.2	33.0	32.8	32.3	32.1		26.3

1 Restated for the accounting changes described in Significant Accounting Policies on page 24.

2 Before the following credits: in 1972, an extraordinary item of $.7, or $.02 per share both primary and assuming full dilution; in 1970, an extraordinary item of $.1, with no effect per share, and a gain on disposition of properties and investments of $.3, or $.01 per share both primary and assuming full dilution; and in 1969, a gain on disposition of properties and investments of $10.9, or $.37 per share primary and $.30 per share assuming full dilution.

3 Based on common stock and Special Stock, Series A at year-end.

4 Adjusted for the two-for-one stock split in 1972.

(Management's Discussion And Analysis)

In millions

	Increase (decrease) in 1978 over 1977		Increase (decrease) in 1977 over 1976		Principal causes
	Amount	Percent	Amount	Percent	
Revenues and other income	$281.4	12%	$320.6	16%	Most of the increases in both years came from aggresive expansion programs in the land transportation group and higher volume and rate increases in the utilities group. Other factors include market penetration and higher prices in the institutional food and paper product distribution units, and increased demand for metal recovery and pollution control services. In 1978, revenue gains in ocean shipping were offset by a cancellation charge on a liquefied natural gas carrier and a provision for sale of an oil tanker. An office building and a land tract were sold in 1978 at a gain. Three unprofitable industrial distribution units were sold in 1977.
Cost and expenses	$297.7	14%	$256.6	14%	For both years, the largest increases resulted from higher volume and operating costs in the land transportation and utilities groups. Expenses of the industrial services companies were proportional to sales increases, except that IU Conversion Systems was profitable for the first time in 1977 and the industrial products group's margins were affected by strikes in 1978. Declines in ocean shipping operating expenses reflected fleet reductions and vessel layups; expenses of ships delivered in 1977 and 1976 partly offset the decline. Higher margins of the institutional food distribution unit offset lower margins from dental distribution. Agribusiness was affected by a sugar mill closing, wind damage at a macadamia nut orchard, higher cost of purchased molasses, and higher agricultural production costs. Agribusiness expenses in 1977 reflected divestment of several operating units.
Interest and debt expense	$8.7	9%	$26.0	37%	The increases in both years were caused primarily by borrowings associated with additions to the ocean shipping fleet. Interest rates also rose during both periods.
Foreign currency adjustments	$(3.4)	(24%)	$15.8	--	In both years, gains from foreign currency adjustments stemmed from less rapid year-to-year declines in the Canadian-to-United States dollar exchange rate and a continued weakening of the United States dollar against other major currencies.
Income taxes	$13.4	35%	$18.9	96%	The increase in 1978 over 1977 was a result primarily of improved profitability in the utility and land transportation groups. The increase in 1977 over 1976 was largely due to the one-year return to profitability of the agribusiness group because of federal sugar support payments.
Minority	$5.0	19%	$19.1	251%	The 1978 increase resulted from higher earnings in United States dollars from utility operations in Canada, along with dividend requirements on new preferred issues by subsidiaries. The 1977 increase reflects the reported earnings of the agribusiness subsidiary and higher earnings in United States dollars of utility operations in Canada.

PENN YAN EXPRESS, INC.

(Five-Year Summary)

	1978	1977	1976	1975	1974
Financial Data					
Operating revenues	$18,133,977	16,982,312	13,911,984	10,483,054	10,180,111
Operating income	775,082	1,254,770	1,006,469	534,889	954,144
Interest expense	649,766	473,007	331,541	294,912	257,284
Other income net	86,566	156	2,179	1,885	58,451
Earnings before income taxes	211,882	781,919	677,107	241,862	755,311
Income taxes	(91,000)	180,000	174,000	61,000	273,000
Net earnings	$ 302,882	601,919	503,107	180,862	482,311
Earnings per common share assuming no dilution	$ .70	1.36	1.13	.42	1.15
Earnings per common share assuming full dilution	$ .70	1.33	1.09	.40	
Average shares outstanding assuming no dilution	430,346	430,346	430,346	429,830	418,565
Average shares outstanding assuming full dilution	430,346	450,944	459,946	448,534	
Operating Data					
Tons of freight	316,254	317,585	273,610	221,512	240,713
Number of shipments	337,144	349,482	327,929	246,226	227,803
Average length of haul	226.4	221.0	223.8	236.1	259.4
Intercity miles	5,632,183	5,528,424	4,969,088	4,497,201	4,701,562

(Management's Discussion And Analysis)

1978 versus 1977

Operating revenues increased approximately 7% over 1977 with a decrease in tonnage of approximately 1%. Rate increases of approximately 7% were granted to offset the April 1, 1978 Teamster Union labor increase, and a 2% increase was granted in November, 1977 to offset other cost increases. The decrease in tonnage was primarily due to the downturn in the Metropolitan New York and New Jersey market area.

Operating expenses increased approximately 10.4% over 1977. Salaries, Wages and Fringes increased approximately 10.4% principally due to the Teamster Union wage increase of 10.3% and an 8.5% increase in Health, Welfare, and Pension contributions, effective as of April 1, 1978. Non-Union employees received a 5% cost of living increase to coincide with the Teamster cost of living increase, plus a wage increase of approximately 5% on their anniversary date. Fringe cost increases were also due to additional contributions for Social Security taxes and increased premiums on the Group Insurance Program.

All other expenses increased principally due to inflation and the opening of the Reading and Sayreville terminals during 1977. However, these increases were partially offset by merging the Phillipsburg, New Jersey operations with the Reading, Pennsylvania operations in April, 1978 and merging the Sayreville, New Jersey operations with the Carlstadt, New Jersey operations in September, 1978. Rent expenses increased, due to converting the automobile fleet to leased automobiles thereby eliminating their depreciation expense.

The gain on the sale of non-operating property came principally from the sale of the Phillipsburg, New Jersey terminal and from the disposal of other miscellaneous parcels of real estate.

Interest expense increased approximately 37.4% over 1977 due to net borrowings of $200,000 on the revolving credit line, plus increased interest rates on this line, averaging 9.632% in 1978 versus 7.509% in 1977. In addition, $950,000 in mortgage debt carrying interest rates of 9-3/8% and 9-1/2% which were added during the latter part of 1977, impacted the full year of 1978. The construction in progress on the new addition to the Penn Yan, New York Administrative and Maintenance facilities required interim financing of $504,000.

Income taxes reflect a benefit in 1978 due to reduced earnings, and realizing the maximum job tax credit, and investment tax credit available on acquisition of new equipment.

1977 versus 1976

Operating revenues increased approximately 22.1% over 1976 with an increase in tonnage of approximately 16.0%. Rate increases of approximately 7.42% were granted to offset the April 1, 1977 Teamster Union labor increase and a 2.0% increase was granted in July, 1977 to offset other cost increases.

Operating expenses increased approximately 21.9% during 1977, principally due to a Teamster Union wage increase of 9.5%, effective April 1, 1977. In addition, two new terminals were opened in February and September, 1977, respectively, resulting in an overall labor increase of 23.0% over 1976. Fringes increased 27.1%, primarily due to a 9.5% increase in weekly Union Welfare and Pension contributions, increased Social Security contributions, and a 10.8% increase in contributions to the Profit Sharing Plan. Other items of cost increased, primarily due to inflation and the opening of the two new terminals. Rents decreased because of the extra cost recorded in 1976 for the liquidation of the Binghamton, New York lease.

Interest cost was a major increase amounting to 42.6% over 1976, due to additional net borrowings of $1,888,000 and an increase in the average rate of interest on the Revolving Credit Agreement from 7.352% in 1976 to 7.509% in 1977.

Total income taxes remained approximately the same, resulting in an effective tax rate of 23.0% in 1977 compared to 25.7% in 1976. The 1977 reduction in tax was primarily attributable to a $52,000 job tax credit.

(continued)

	1978	1977	1976	1975	1974	1973
Revenue and Earnings:						
Operating revenue	$190,566,404	$156,520,592	$123,023,948	$101,004,174	$114,355,690	$105,701,405
Pre-tax earnings (loss)	6,473,093	5,049,834	1,834,025	(2,938,418)	3,253,729	4,056,762
Net earnings (loss)	3,583,093	2,699,834	1,119,025	(1,331,418)	1,678,729	2,124,907
Operating ratio (I.C.C. basis)	95.24%	95.51%	96.93%	100.49%	95.25%	94.99%
Per Share of Common Stock:						
Earnings (loss)--Primary	1.65	1.26	.50	(.69)	.77	.99
Earnings (loss)--Fully diluted (Note 1)	1.62	1.21	.48	(.69)	.74	.95
Dividends	.35	.225	.20	.25	.40	.38
Book value at year end	10.15	8.85	7.81	7.52	8.45	8.08
Financial Position:						
Working capital	3,978,611	4,095,790	4,026,744	4,947,161	6,889,836	4,678,071
Current ratio	1.19 to 1	1.22 to 1	1.27 to 1	1.38 to 1	1.57 to 1	1.54 to 1
Net plant and equipment	48,164,350	39,097,613	35,163,047	35,569,460	36,459,226	27,998,846
Common stockholders' equity	21,247,131	18,304,834	16,138,349	15,515,210	17,448,775	16,670,171
Total stockholders' equity	23,458,331	20,516,034	18,349,549	17,726,410	19,659,975	18,881,371
Long-term debt, excluding debentures	27,699,755	22,236,022	20,534,008	22,175,310	23,260,110	13,699,626
Convertible subordinated debentures	259,000	353,500	438,500	531,000	619,500	722,000
Number of common stockholders	3,884	3,877	4,120	4,344	4,445	4,372
Number of debenture holders	86	102	113	140	141	150
Capital Expenditures, Net of Disposals:						
Revenue and service equipment	11,281,094	4,964,137	1,324,299	2,809,490	10,264,819	5,955,251
Land and structures	3,468,997	799,752	3,499,831	1,507,150	2,440,931	2,705,679
Other	1,461,863	3,911,141	13,776	223,289	578,504	379,862
Total	16,211,954	9,675,030	4,837,906	4,539,929	13,284,254	9,040,792
Operations:						
Tons transported (Note 2)	2,305,048	2,003,249	1,696,749	1,508,483	1,950,253	2,010,978
Intercity miles traveled (Note 3)	118,061,947	105,478,280	88,134,241	78,975,897	92,187,617	93,614,738
Shipments handled	1,989,695	1,845,929	1,692,417	1,443,485	1,637,712	1,787,710
Equipment owned and operated at year end:						
Tractors	1,657	1,465	1,394	1,373	1,319	1,278
Trailers	3,445	2,968	3,019	3,044	3,062	2,537
Trucks	241	262	270	303	276	292
Total	5,343	4,695	4,683	4,720	4,657	4,107
Employees at year end	4,385	4,000	3,700	3,615	3,700	4,100

Notes:

1. Fully diluted earnings per share have been computed as described in Financial Notes. Adjustments have been made for the 2-for-1 stock split in 1971.
2. Actual tons transported are shown for 1973 through 1978. For years prior to 1973, tons transported were determined on the basis of billed weight.
3. Peddle miles are included in intercity miles.

	1972	1971	1970	1969
Revenue and Earnings:				
Operating revenue	$78,570,973	$71,972,403	$60,428,225	$53,881,543
Pre-tax earnings (loss)	5,409,520	5,498,898	2,979,998	2,189,745
Net earnings (loss)	2,712,363	2,691,431	1,462,385	1,113,217
Operating ratio (I.C.C. basis)	92.42%	91.55%	93.55%	94.67%
Per Share of Common Stock:				
Earnings (loss)--Primary	1.30	1.46	.92	.70
Earnings (loss)--Fully diluted (Note 1)	1.22	1.24	.70	.53
Dividends	.36	.35	.34	.34
Book value at year end	7.48	6.52	5.17	4.57
Financial Position:				
Working capital	4,053,441	1,490,141	2,783,203	2,280,611
Current ratio	1.56 to 1	1.17 to 1	1.44 to 1	1.42 to 1
Net plant and equipment	22,645,898	19,504,083	18,187,055	18,081,188
Common stockholders' equity	15,271,902	12,478,197	7,787,926	6,800,535
Total stockholders' equity	17,483,102	14,689,397	9,999,126	9,011,735
Long-term debt, excluding debentures	8,579,856	4,790,086	6,676,016	6,901,746
Convertible subordinated debentures	800,000	1,519,000	4,274,000	4,398,000
Number of common stockholders	4,210	4,065	2,889	2,852
Number of debenture holders	166	236	504	490
Capital Expenditures, Net of Disposals:				
Revenue and service equipment	3,949,079	2,802,879	1,510,123	3,742,801
Land and structures	1,898,455	1,062,039	707,528	946,593
Other	404,466	282,352	598,681	373,039
Total	6,252,000	4,147,270	2,816,332	5,062,433
Operations:				
Tons transported (Note 2)	1,509,428	1,393,097	1,242,288	1,258,283
Intercity miles traveled (Note 3)	74,122,907	70,657,455	64,854,792	63,625,601
Shipments handled	1,623,976	1,641,804	1,690,556	1,697,036
Equipment owned and operated at year end:				
Tractors	1,081	1,020	930	919
Trailers	2,055	1,923	1,743	1,706
Trucks	251	246	240	246
Total	3,387	3,189	2,913	2,871
Employees at year end	3,500	3,400	3,159	3,025

Notes:

1. Fully diluted earnings per share have been computed as described in Financial Notes. Adjustments have been made for the 2-for-1 stock split in 1971.

2. Actual tons transported are shown for 1973 through 1978. For years prior to 1973, tons transported were determined on the basis of billed weight.

3. Peddle miles are included in intercity miles.

Operating Results

Operating revenue for the year ended December 31, 1978 was $190,566,404, an increase of 21.8% over 1977 revenue of $156,520,592. The increase is attributed to the continuation of the aggressive marketing effort begun in 1976 and to revenue derived from the nine additional terminals opened in 1978.

Net earnings in 1978 of $3,583,093 were 32.7% greater than 1977 earnings of $2,699,834. Record earnings in 1978 were achieved without the benefit of rate increases to offset non-labor inflationary costs during the year. Primary earnings per share rose 31.0% from $1.26 in 1977 to $1.65 in 1978.

Financial Condition

Long-term debt was $29,291,225 (including current maturities) at December 31, 1978, an increase of $4,479,653 in 1978. On September 1, 1978 the Company concluded a new loan with the Prudential Insurance Company of America increasing the amount outstanding from $8,100,000 to $19,700,000. The new 9.40% seventeen-year note provides for a three-year moratorium on principal payments.

The new Prudential note permitted the Company to reduce the amount outstanding under its revolving credit agreement with three banks headed by Citibank, N.A. from $9,000,000 at December 31, 1977 to $2,500,000 at December 31, 1978. The unused balance of the revolving credit maximum commitment at year end was $7,500,000.

Stockholders' equity increased $2,942,297 during the year and amounted to $23,458,331 at December 31, 1978. Book value per share increased from $8.85 to $11.15.

The ratio of long-term debt to stockholders' equity was 1.19 to 1 at December 31, 1978 compared with 1.10 to 1 at December 31, 1977. Long-term debt due within one year was $1,332,470 at December 31, 1978.

Working capital at December 31, 1978 was $3,978,611, a decrease of $117,179 from the prior year. This slight decline was more than accounted for by the lower compensating balance requirements in connection with the reduction in the revolving credit outstanding balance. Trade accounts receivable at year end represented 20.1 days revenue outstanding, an improvement from 20.6 days at December 31, 1977.

Capital Expenditures

Capital expenditures, net of dispositions of $489,851, totaled $16,211,954 during 1978 compared with $9,675,030 in 1977. Included were expenditures for revenue equipment of $11,281,094. Expenditures were $3,468,997 for land and structures and $1,461,863 for other equipment and leasehold improvements.

Investment Tax Credits

Investment tax credits on property purchased during 1978 aggregated $939,410. The investment tax credits are taken into income over the lives of the qualifying equipment. Accordingly, the 1978 income tax provision was reduced by $430,687 to reflect amortization of investment tax credit in 1978. Unamortized investment tax credits at December 31, 1978 were $1,997,110, which will reduce income tax provisions in future years.

Common Stock

Outstanding shares of common stock totaled 2,094,339 at December 31, 1978. At year end, 139,225 shares were reserved under stock option plans. Options to purchase 126,475 shares were outstanding.

Dividends of $.075 per share were paid for each of the first two quarters of 1978. The dividend rate for the third and fourth quarters, 1978 was increased to $.10 per share. Total common stock dividends paid in 1978 were $726,650.

Under the Prudential loan agreement, 70% of future earnings plus $2,332,000 will be available for dividend payments subsequent to the payment of dividends in the first quarter of 1979.

Disclosure of Supplemental Stock and Dividend Information

The SEC requires that the principal market upon which any voting securities are traded be disclosed in the annual report to the shareholders along with the price range of the stock and dividends paid for each quarterly period for the past two fiscal years. Forty of the companies disclosed both stock and dividend information, four disclosed only stock information, and three companies made no disclosure.

EXAMPLES Disclosure of principal market, quarterly stock price ranges and dividends paid by quarter

NATIONAL CITY LINES, INC.

Market Information

The common stock of the Company is listed on the New York Stock Exchange. Presented below are the high and low market prices on a quarterly basis for 1978 and 1977.

	1978		1977	
	High	Low	High	Low
First Quarter	$18-3/4	$13-3/8	$11-5/8	$ 8-3/8
Second Quarter	$16-1/2	$11-1/8	$15-3/4	$10-1/2
Third Quarter	$14-7/8	$10-3/8	$14-5/8	$11-3/4
Fourth Quarter	$15-1/2	$ 9	$18	$13-3/8

Dividend Information

For the years 1978 and 1977, dividends of $.15 per share were paid each quarter.

PRESTON TRUCKING COMPANY, INC.
(Stock Information)

Prices

Preston Trucking Company, Inc. common stock is traded over-the-counter and is quoted by the National Association of Securities Dealers Automatic Quotation System (NASDAQ) under the symbol PTRK.

The following table indicates the price range for each quarter during the years 1978 and 1977.

	1978				1977			
	Bid		Asked		Bid		Asked	
	High	Low	High	Low	High	Low	High	Low
Quarter ended:								
March 31	19	15-1/4	20	16-1/4	26-1/4	20-1/2	27-1/4	21-1/2
June 30	18-3/4	14-1/4	19-3/4	15-1/4	21-3/4	19-1/2	22-3/4	20-1/2
September 30	23	16	24	17	22	18	23	19
December 31	20-3/4	12	21-3/4	13	20-3/4	18	21-3/4	19

Dividends

Cash dividends for the years 1978 and 1977 were as follows:

Record Date	Date Paid	Amount Per Share
March 31, 1978	April 14, 1978	$.12-1/2
June 30, 1978	July 14, 1978	.12-1/2
September 30, 1978	October 31, 1978	.15
December 29, 1978	January 31, 1979	.15
		$.55
March 31, 1977	April 15, 1977	$.10
June 20, 1977	July 15, 1977	.12-1/2
September 30, 1977	October 14, 1977	.12-1/2
December 30, 1977	January 14, 1978	.12-1/2
		$.475

Balance Sheet

All companies in the survey used the title "Balance Sheet" or "Consolidated Balance Sheet".

Cash

In the reports surveyed a number of captions used for the cash classification on the balance sheet included some reference to temporary investments or inclusion of current investments of a form similar to cash. Table 6 summarizes the captions used by the survey companies.

Eleven reports surveyed used a separate balance sheet caption for certificates of deposit or temporary cash investments.

Disclosure of compensating balances is required by both the SEC and the ICC. "A compensating balance is defined as that portion of any demand deposit (or any time deposit or certificate of deposit) maintained by a corporation (or by any person on behalf of the corporation) which constitutes support for existing borrowing arrangements of the corporation (or any other person) with a lending institution. Such arrangements would include both outstanding borrowings and the assurance of future credit availability".

Footnote disclosure is required for all compensating balance arrangements, including those not reduced to writing. The compensating balance should be segregated on the balance sheet only if compensating balances are legally restricted (as determined by the company and its bank), or are related to long-term borrowing arrangements and can be computed as a fixed amount at the balance sheet date. The current or noncurrent classification of the deposit should be the same as the related debt.

Table 7 indicates the type of compensating balance disclosure utilized by the survey companies.

The disclosure was generally included in the long-term debt footnote; however, in one instance a separate footnote on compensating balances was noted. There were no reports noted with compensating balances segregated on the balance sheet.

TABLE 6. SUMMARY OF CASH CAPTIONS USED

Caption Used	No. of Survey Companies
Cash	33
Cash and temporary investments	4
Cash, including certificates of deposits of $XXXXXX	5
Cash and short-term investments	5
	47

TABLE 7. COMPENSATING BALANCE DISCLOSURE

Type of Disclosure Noted	No. of Survey Companies
Footnote disclosure of terms or amounts	26
Footnote disclosure that no material compensating balances exist	4
No disclosure	17
	47

EXAMPLES Compensating balance disclosure

BRIGGS TRANSPORTATION CO.
(Long-term Debt Footnote)

The unsecured revolving credit loan, representing borrowings from banks, was increased in 1978 from $9,000,000 to $11,000,000 and currently permits the Company to borrow up to $11,000,000 or 90% of the net depreciated value of unencumbered revenue equipment (including tires thereon), whichever is less. The agreement provides for interest at 1/2% above the prime rate on borrowed funds and a 1/2% commitment fee on the unused portion of the line. In addition, the Company has informally agreed to maintain average annual compensating balances in checking accounts equal to 15% of borrowed funds. Such balances are not legally restricted and may be withdrawn for daily operations as needed.

CAROLINA FREIGHT CARRIERS, CORPORATION
(Long-term Debt Footnote)

Informal compensating balances of 20% of the outstanding loan and 10% of the unused commitment exist between the Company and the banks participating in the revolving credit agreement. The compensating balance requirement is measured by average rather than fixed balances. The appropriate level of compensating balances at December 31, 1978 was $1,250,000 ($2,362,500 at December 31, 1977).

WOODS CORPORATION
(Note Payable and Long-term Debt Footnote)

In consideration for credit arrangements, compensating cash balances averaging approximately ten percent of established credit lines plus ten percent of amounts borrowed (without minimum amounts) are required under arrangements in effect at December 12, 1978.

SPECTOR INDUSTRIES, INC.
(Notes to Financial Statements)

(2) Compensating Balance Arrangements

In connection with the revolving credit loan agreement referred to in Note 5, the Company is expected to maintain average cash balances of 10% of the bank's current commitment plus 10% of the actual borrowings, based upon the bank's ledger records adjusted for uncollected funds. During 1978, the average compensating balances amounted to approximately $2,200,000 ($2,100,000 at December 31, 1978). There are no bank restrictions applicable to the withdrawal of these cash balances.

Cash balances of $6,484,000 and $4,639,000 at December 31, 1978 and 1977, respectively, were legally restricted. Restricted balances are principally self-insurance reserve deposits which are required under the Company's self-insurance program and provide a major portion of the compensating balances referred to above.

Investments

Amounts invested in short-term investments were generally included in the current asset section of the balance sheet; however, some investments in marketable securities were shown as noncurrent assets. The criteria used in determining whether an investment should be shown as current or noncurrent was generally management's intent regarding the investment. Table 8 summarizes the descriptions used in reporting investments.

FASB Statement No. 12 "Accounting for Certain Marketable Securities" requires that marketable equity securities be carried at the lower of aggregate cost or market value. Realized gains and losses are to be included in the net income in the period in which they occur. Any change in the excess of aggregate cost over market value for securities classified as current assets should be included in the determination of net income; however, any change in such excess for noncurrent securities should be included as a separate item in the equity section of the balance sheet. Subsequent recoveries in market price (up to the amount of original cost) would be credited to income in the case of current securities and for noncurrent securities would be used to reduce the accumulated net unrealized loss shown in the equity section of the balance sheet.

TABLE 8. SUMMARY OF DESCRIPTIONS USED TO DESCRIBE INVESTMENTS

	No. of Survey Companies		No. of Survey Companies
Shown as current asset:		Shown as noncurrent asset:	
Marketable securities	4	Investments or investments and other assets	10
Short-term or temporary investments	12	Investment in securities	1
U.S. Government securities or similar caption	1	Commercial paper	1

EXAMPLES Investments

TELECOM CORPORATION
(Balance sheet)

	1978	1977
Current Assets		
Marketable securities (Note 4):	$1,142,653	$-0-

(Notes to Financial Statements)

4. Marketable Securities

During 1978, the former restrictions on the Company's investment in 132,000 shares of common stock of Spector Industries, Inc. (Spector) were removed when such shares were registered with the Securities and Exchange Commission. However, such registration placed certain conditions upon subsequent sales of Spector stock, i.e., the number of shares which may be purchased by any person or group of affiliated persons is limited to 18,000 shares. The investment, aggregating $1,123,453 at December 31, 1978, had a market value of $907,500 at that date and $1,040,000 at February 23, 1979. Because it is the intent of the Company to sell its investment in Spector when market conditions warrant, the investment was reclassified in 1978 to current assets. In December 1978, the Company's SBIC subsidiary distributed 12,000 shares of common stock of an investee company to its parent, TeleCom Corporation, which had a cost basis of $19,200. No gain or loss was recognized on that transaction.

The aggregate cost and market value of marketable securities at December 31, 1978 was $1,142,653 and $1,317,000, respectively; gross unrealized gains and losses were $390,300 and $215,953, respectively. During the year ended December 31, 1978, the Company realized a gain of approximately $145,000 from the sale of marketable securities. No gain or loss was realized in 1977.

NATIONAL CITY LINES, INC.
(Balance sheet)

	1978	1977
	(In thousands of dollars)	
Current Assets:		
Marketable equity securities (Note C)	$3,365	$2,630

(Notes to Financial Statements)

C. Marketable Equity Securities:

For the years ended December 31, 1978 and 1977, net realized gains of $454,000 and $64,000 have been included in the determination of net earnings. At December 31, 1978, unrealized gains and losses were $151,000 and $137,000, respectively, for current marketable equity securities. Also, at December 31, 1978, unrealized gains for noncurrent marketable equity securities were $136,000.

Accounts Receivable

The accounts receivable balances generally included customer and interline receivables. Table 9 indicates the captions used in this section of the balance sheet. Details of amounts receivable were frequently shown on the balance sheet or in footnote disclosure.

TABLE 9. CAPTIONS USED TO DESCRIBE RECEIVABLES

	No. of Survey Companies
Accounts receivable	20
Receivables	12
Accounts and notes receivable	8
Trade receivables or trade accounts receivable	4
Customer and interline accounts receivable	3
	47

EXAMPLES Accounts receivable

PEPSICO, INC.
(Balance sheet)

	1978	1977
	(Thousands of dollars)	
Current Assets:		
Notes and accounts receivable, less allowance: 1978--$27,527; 1977--$15,772	$433,650	$374,399

FLEXI-VAN CORPORATION
(Balance sheet)

	1978	1977
Current Assets:		
Receivables, less allowance of $8,217,000 in 1978 and $4,862,000 in 1977	$45,359,000	$35,323,000

LEASEWAY TRANSPORTATION CORP.
(Balance sheet)

	1978	1977
Non-Current Assets:		
Investments in Securities--at cost (quoted market value $27,324,000 and $29,704,000)	$29,183,133	$29,279,743

(Notes to Financial Statements)

2. Investments in Securities

The securities consist of sinking fund preferred stocks of listed companies, which are redeemable in the future by the issuers at aggregate amounts in excess of their cost.

Realized net losses of $58,000 in 1978 and gains of $530,000 in 1977 from the sale of securities were included in investment income.

PRESTON TRUCKING COMPANY, INC.
(Balance sheet)

	1978	1977
Current Assets:		
Accounts receivable, less allowance for doubtful accounts of $434,455 in 1978 and $389,402 in 1977	$13,588,644	$12,505,501
Other receivables, including current portion of mortgages receivable	512,631	731,387

RYDER SYSTEM INC.
(Balance sheet)

	1978	1977
	(Thousands of dollars)	
Non-Current Assets:		
Investments, advances and other assets (Note 3)	$10,732	$12,454

(Notes to Financial Statements)

(3) Investments, Advances and Other Assets

Investments, advances and other assets consist of (000 omitted):

	1978	1977
Investments in and advances to unconsolidated subsidiaries	$ 978	$ 1,045
Non-operating property	2,399	2,242
Non-current assets and deferred tax benefits of discontinued operations	866	949
Non-current receivables and other assets	6,489	8,218
	$10,732	$12,454

Allowance for Doubtful Accounts

Table 10 indicates the various methods used to indicate the allowance for doubtful accounts on the balance sheet. The majority of the survey companies disclosed both the existence of an allowance and the amount thereof.

TABLE 10. DISCLOSURE OF ALLOWANCE FOR DOUBTFUL ACCOUNTS

	No. of Survey Companies
Amount shown parenthetically in the receivable description	33
Allowance deducted from receivables on the balance sheet column	3
Amount of allowance disclosed in a footnote	2
Amount of allowance not disclosed	5
No mention of allowance	4
	47

EXAMPLES **Allowance for doubtful accounts**

SMITH's TRANSFER CORPORATION
(Balance sheet)

Current Assets:

Accounts receivable (Note 1)	1978	1977
Freight revenue, less allowance for doubtful accounts of $636,000 and $304,092	$16,789,367	$12,015,669
Other	2,157,976	2,389,416

MAYFLOWER CORPORATION
(Balance sheet)

Current Assets:

Receivables	1978	1977
Due from shippers	$14,571,874	$11,817,980
Accrued unbilled accounts receivables (Note 8)	9,843,000	9,069,000
Installment contracts due within one year	1,800,000	1,600,000
Other	1,596,609	1,343,882
Less-Allowance for possible collection losses	(663,000)	(490,000)
TOTAL RECEIVABLES	27,148,483	23,340,862

MIDWESTERN DISTRIBUTION, INC.
(Balance sheet)

Current Assets:	1978	1977
Receivables, net	$11,097,136	$ 9,016,073

(Notes to Financial Statements)

B. Receivables:	1978	1977
Installment notes receivable, current	$ 5,679,326	$3,832,683
Accounts receivable trade	2,917,994	2,367,162
Accounts receivable independent contractors	2,477,900	2,744,201
Accounts receivable other	281,916	252,027
	11,357,136	9,196,073
Less allowance for doubtful accounts	260,000	180,000
	$11,097,136	$9,016,073

The unearned portion of the finance charges of $3,103,620 for 1978 and $2,460,260 for 1977 have been offset against current and long-term installment notes receivable for financial reporting purposes.

The installment notes receivable are collateralized by the equipment sold to the independent contractors.

RLC CORP.
(Balance sheet)

Current Assets:	1978	1977
Accounts receivable, net	$28,698,000	$23,723,000

Inventories

Inventories for motor carriers consist primarily of fuel, repair parts, tires and miscellaneous operating supplies to be used in operations. A summary of the primary captions used are shown in Table 11. The use of the caption inventories was the single most used term. However, of the 17 survey companies using the caption inventories 9 were companies with significant noncarrier operations.

The methods used in pricing inventories or operating supplies are summarized in Table 12.

When the basis of pricing inventories or operating supplies was mentioned, it was either disclosed in the balance sheet caption or in the notes to the financial statements.

TABLE 11. INVENTORY CAPTIONS

	No. of Survey Companies
Inventory (or Inventories)	17
Repair parts and operating supplies	4
Materials and supplies	4
Operating supplies	8
Fuel, tires, parts & supplies	10
None shown	4
	47

TABLE 12. METHODS USED TO PRICE INVENTORY

	No. of Survey Companies
Lower of cost or market	9
Cost	14
Lower of average cost or market	5
Lower of standard cost or market	1
Current invoice (replacement) cost	1
Average cost	2
Method not disclosed	15
	47

EXAMPLES Disclosure of inventory valuation

BANNER INDUSTRIES, INC.
(Balance Sheet)

Current Assets:	1978	1977
Inventories at lower of cost (first-in, first-out) or market	$21,983,859	$19,873,978

TRANSCON LINES
(Balance Sheet)

Current Assets:	1978	1977
Materials and supplies--at cost (first-in, first-out)	$ 4,150,000	$ 3,374,000

ROADWAY EXPRESS, INC.
(Balance Sheet)

Current Assets:	1978	1977
Fuel, tires, parts and supplies	$4,658,866	$3,613,771

(Accounting Policies Footnote)

These items are used in operations and are valued at the lower of average cost or market.

DELTA CALIFORNIA INDUSTRIES
(Balance Sheet)

Current Assets:	1978	1977
Operating supplies and inventories, at cost (first-in, first-out)	$1,801	$1,660

CHEMICAL LEAMAN CORPORATION
(Balance Sheet)

Current Assets:	1978	1977
Materials and supplies	$1,995,000	$1,761,000

(Accounting Policies Footnote)

Materials and supplies representing parts and supplies for revenue equipment are valued at the latest representative purchase price.

Prepaid Expenses

Various prepaid expenses included in this caption were taxes, insurance, licenses and tires in service. The captions used on the balance sheet are summarized in Table 13.

TABLE 13. SUMMARY OF PREPAID EXPENSE CAPTIONS

	No. of Survey Companies
Prepaid expenses	19
Prepaid expenses with component parts shown separately	16
Prepaid expenses (including tires in service)	4
Prepaid expenses including operating parts and supplies	1
Prepaid expenses and other current assets	3
Prepaid license, insurance and other	1
Prepaid expenses and deposits	2
No caption	1
	47

TABLE 14. SUMMARY OF PREPAID TIRE CLASSIFICATIONS

	No. of Survey Companies
Separate line item in prepaid expenses	13
Separate line item	3
Amount parenthetically disclosed in prepaid expenses	2
Included in prepaid expenses--amount not disclosed	3
Not shown	26*
	47

*Includes 1 report showing tires in the inventory section. It was assumed that the tires so reported were not yet in service.

Prepaid Tires

ICC accounting regulations prohibit motor carriers from capitalizing tires purchased on new units as a part of the revenue equipment. However, the carriers are permitted to either capitalize tires put into service and amortize them over their estimated useful lives or to expense the entire cost of the tires at the time they are placed in service. Tires were classified on the balance sheet as shown in Table 14.

The basis for the dual method (expense vs. capitalization) permitted in accounting for tires can best be summarized by consideration of the actual average life of tires in service. Carriers with high utilization of equipment, combined with short to medium length hauls will often have an average tire life of less than twelve months and, accordingly, expense tires placed in service immediately. On the other hand, carriers with less than high equipment utilization, combined with extremely long hauls over interstate highways may have an average tire life in excess of twelve months and therefore capitalize and amortize tires placed in service over their average estimated useful life.

It would appear that some carriers take a third approach, by capitalizing approximately 40% to 50% of the cost of tires in service on the basis that due to safety standards the average value of tires in service never deteriorates below this value.

EXAMPLES Prepaid tires

MID-AMERICAN LINES, INC.
(Balance Sheet)

Current Assets:	1978	1977
Prepaid tires and tubes	$677,925	$880,605

GATEWAY TRANSPORTATION CO., INC.
(Balance Sheet)

Current Assets:	1978	1977
Prepaid expenses, including tires and tubes of $1,800,000 in 1978 and $1,671,000 in 1977	$2,939,000	$2,835,000

F-B TRUCK LINE COMPANY
(Balance Sheet)

Current Assets:	1978	1977
Prepaid expenses		
Tires in service	$404,894	$406,913
Other	34,258	49,359

Various methods of amortization of purchased tires were noted. Disclosure of the amortization method used was usually made in the accounting policies footnote. The methods of amortization are summarized in Table 15.

TABLE 15. SUMMARY OF AMORTIZATION METHODS FOR TIRES

	No. of Survey Companies
Charged off when placed in service	1
Amortized over "the estimated useful life of the tires"	13
Based on 50% of original cost	2
Based on mileage	4
Based on age (three years from installation)	1
Carried at estimated salvage value	1
Not disclosed	25
	47

EXAMPLES **Accounting for tires**

YELLOW FREIGHT SYSTEM, INC.
(Accounting Policies Footnote)

The cost of tires, including those purchased with new equipment, is amoritzed over the estimated tire lives. The unamortized balance of the cost is included in prepayments.

LYNDEN TRANSPORT, INC.
(Accounting Policies Footnote)

Prepaid Expenses

The cost of tires mounted on revenue equipment is included in prepaid expenses. Amortization is based on the average estimated remaining mileage of the tires.

WILSON FREIGHT COMPANY
(Accounting Policies Footnote)

Tires

The cost of tires is amortized over three years by the straight line method.

Captial Assets

The capital asset category includes land, buildings, all carrier operating property, furniture and fixtures, and other miscellaneous fixed assets. A breakdown of the component parts under these captions was disclosed on the balance sheet except in six instances where the detail was included in a footnote or in supplemental financial statement information.

The various primary captions used in the presentation of capital assets are shown in Table 16.

TABLE 16. SUMMARY OF CAPTIONS USED TO DESCRIBE CAPITAL ASSETS

	No. of Survey Companies
Property, plant, and equipment	18
Property and equipment	13
Carrier operating property	3
Operating property	6
Tangible property	2
Plant and equipment	1
Property	1
Property, structures and equipment	1
Revenue equipment	2
	47

EXAMPLES Capital asset presentation

ASSOCIATED FREIGHTWAYS, INC.
(Balance sheet)

	1978	1977
Property And Equipment (Notes 3 & 4)		
Revenue and service equipment	$35,870,651	$25,162,711
Land and structures	13,685,137	10,915,556
Other operating properties	5,704,022	5,426,180
Rental equipment	4,182,388	3,453,745
	$59,442,198	$44,958,192
Less--Accumulated depreciation and amortization	22,755,627	20,398,394
Net property and equipment	$36,686,571	$24,559,798

COASTAL INDUSTRIES, INC.
(Balance sheet)

	1978	1977
Carrier Operating Property--Notes D, I and K		
Land and improvements	$ 1,015,257	$ 1,101,622
Structures	4,367,335	4,578,087
Revenue equipment	37,400,172	31,241,453
Other equipment	2,352,573	1,756,309
Leasehold improvements	309,007	299,066
	45,444,344	38,976,537
Less allowances for depreciation	19,071,889	17,105,350
TOTAL CARRIER OPERATING PROPERTY	26,372,455	21,871,187

REPUBLIC VAN LINES, INC.
(Balance sheet)

	1978	1977
Property and equipment, at cost (notes 2, 3 and 6):		
Land	2,750	2,750
Buildings and leasehold improvements	22,894	172,343
Revenue equipment used in operations	1,250,749	1,647,925
Other equipment	258,013	319,435
	1,534,406	2,142,453
Less accumulated depreciation and amortization	795,963	1,201,589
Net property and equipment	738,443	940,864

MCLEAN TRUCKING COMPANY
(Balance sheet)

	1978	1977
Tangible Property (Note 4)		
Land	$ 8,594,025	$ 8,557,792
Buildings	62,059,163	53,911,172
Revenue equipment	120,310,387	96,499,768
Refinery plant and equipment	11,978,450	11,090,276
Other equipment	9,716,126	9,285,118
	212,658,151	179,344,126
Less allowances for depreciation	77,304,137	67,217,376
	135,354,014	112,126,750

EXAMPLES Accounting for capital assets

U.S. TRUCK LINES, INC. OF DELAWARE
(Accounting Policies Footnote)

Property, Plant and Equipment:

The Company capitalizes major expenditures for land, buildings and equipment. Minor replacements, maintenance and repairs which do not improve or extend asset lives are expensed currently. Adjustments of the asset cost and related accumulated depreciation accounts are made for disposals with the resulting gain or loss included in income. Depreciation is computed using the straight-line method.

LIQUID TRANSPORTERS, INC.
(Accounting for Policies Footnote)

(2) Depreciation--Property, plant and equipment are carried at cost. The Company provides for depreciation by the straight-line method over the following estimated useful lives of the assets:

	Years
Buildings and improvements	10 to 25
Revenue equipment	5 to 10
Other equipment	3 to 10

Maintenance and repairs are charged to expense as incurred. Cost of renewals and betterments are capitalized by charges to the property accounts and depreciated at the applicable rates. The cost of assets retired or otherwise disposed of is removed from the asset accounts, the accumulated depreciation is removed from the related reserves and the net gain or loss is reflected in income.

Operating Rights

This caption includes the excess of purchase price of acquired companies over net assets of such companies and the cost incurred in obtaining operating rights or permits.

The terminology used on the balance sheet is summarized in Table 17.

TABLE 17. SUMMARY OF TERMINOLOGY USED TO DESCRIBE OPERATING RIGHTS

	No. of Survey Companies		No. of Survey Companies
Operating rights and other descriptions including operating rights	25	Operating authorities	3
Intangible assets, intangible property or intangibles	8	Franchises and operating rights	2
Franchises and other descriptions including franchises	4	Other	3
		None disclosed	2
			47

EXAMPLES Intangible Assets

THE BEKINS COMPANY
(Balance Sheet)

	1978	1977
	(Thousands of dollars)	
Intangible Assets	$ 5,642	$ 5,576

CONSOLIDATED FREIGHTWAYS, INC.
(Balance Sheet)

	1978	1977
Operating Rights and Goodwill	$34,336,000	$24,015,000

MERCHANTS, INC.
(Balance Sheet)

	1978	1977
Franchises, permits and other, at cost	$ 3,532,001	$ 3,493,279

Amortization of Operating Rights

APB Opinion No. 17 requires the amortization of all intangibles acquired after October 31, 1970 over a period not to exceed forty years. A summary of the amortization policies noted in the reports is shown in Table 18. All companies amortize acquisitions made subsequent to October 1970 and do not amortize pre-November 1970 acquisitions.

The accounting policy relating to operating rights is usually disclosed in the accounting policies footnote.

TABLE 18. SUMMARY OF AMORTIZATION POLICIES FOR OPERATING RIGHTS

	No. of Survey Companies		No. of Survey Companies
Intangibles arising prior to November 1, 1970		Intangibles arising subsequent to October 31, 1970	
Not amortized	43	Not amortized	-0-
Amortized	-0-	Amortized	39
Total reports showing pre 11-1-70 intangibles	43	Total reports showing post 11-1-70 intangibles	39

EXAMPLES Operating rights

ARKANSAS BEST CORPORATION
(Accounting Policies Footnote)

Intangibles: Operating rights, franchises and intangibles are stated at cost and represent principally the excess of cost over underlying net assets, at dates of acquisition, of various other motor common carriers or substantial operating segments thereof. Intangibles acquired subsequent to October 31, 1970, ($12,228,261), are being amortized over 40 years, while intangibles acquired prior to that date are not being amortized.

OVERNITE TRANSPORTATION CO.
(Accounting Policies Footnote)

Franchises And Rights--Franchises and rights consist of the cost of acquiring operating rights through purchase and the cost of filing original applications for operating authority with the Interstate Commerce Commission. These costs which were incurred after October 31, 1970 ($3,057,000) are being amortized over a 40 year period.

TRI-STATE MOTOR TRANSIT CO.
(Accounting Policies Footnote)

Operating Rights--Operating rights are stated at cost and consist principally of operating rights purchased and amounts paid for subsidiaries in excess of the net assets at date of acquisition. The major portion of the rights were acquired before October 31, 1970, and are not being amortized because in the opinion of management there has been no decrease in value. Cost of rights acquired after October 31, 1970, are being amortized over forty years.

Current Liabilities

Captions used to describe current liabilities generally fall within these general categories: Accounts payable, accrued expenses, salaries and wages payable, taxes other than income, claims payable, federal income taxes payable, and current portion of debt. The number of captions used to describe current liabilities ranged from 3 to 11. The average number of line items included in current liabilities was 6.

Accounts Payable and Accrued Expenses

Current liabilities for trade accounts payable, interline accounts payable, withholding taxes, salaries and wages, and taxes other than income taxes were classified under a variety of captions. Table 19 indicates a general caption heading with the number of reports in which it appeared.

TABLE 19. GENERAL CAPTIONS USED TO DESCRIBE ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	No. of Survey Companies		No. of Survey Companies
Accounts payable, trade accounts payable or similar caption containing accounts payable	47	Salaries and wages, accrued wages or caption referring to wages	29
Accrued expenses, accrued liabilities, or other liabilities	34	Accrued taxes, taxes other than income taxes, or similar caption not including income taxes	12
		Drafts payable	3

EXAMPLES Accounts payable and accrued expenses

MURPHY MOTOR FREIGHT LINES, INC.
(Balance Sheet)

	1978	1977
Current liabilities:		
Current portion of long-term debt (Note 2)	$ 803,074	$ 1,571,489
Accounts payable	2,227,184	2,292,849
Accrued expenses	3,070,142	2,601,166
Estimated liability for claims--current	662,645	569,294
Federal and state income taxes	92,513	125,940
Deferred income taxes--current	375,505	505,580
Total Current Liabilities	7,231,063	7,666,318

CHEMICAL LEAMAN CORPORATION
(Balance Sheet)

	1978	1977
Current liabilities		
Accounts payable, trade	$ 6,630,000	$ 5,051,000
Accrued liabilities		
Salaries and wages	3,127,000	2,476,000
Income taxes	497,000	421,000
Other	1,604,000	1,118,000
Estimated cargo loss, liability and damage claims	2,072,000	1,538,000
	13,930,000	10,604,000
Current maturities of long-term debt	8,662,000	7,120,000
Total current liabilities	22,592,000	17,724,000

GRAVES TRUCK LINE, INC.
(Balance Sheet)

	1978	1977
Current Liabilities:		
Accounts payable	$ 2,494,099	$ 1,965,836
Accrued wages, vacations and fringe benefits	2,474,835	2,132,852
Accrued profit sharing	254,400	250,278
Dividends payable	-	190,502
Accrued income taxes (Note 5):		
Currently payable	90,816	442,075
Deferred	1,445,265	775,906
Accrued operating taxes and licenses	342,760	292,411
Other current and accrued liabilities (Note 1)	614,777	253,193
Current maturities of long-term debt	293,517	287,604
Total current liabilities	$ 8,010,469	$ 6,590,657

TRI-STATE MOTOR TRANSIT CO.
(Balance Sheet)

	1978	1977
Current Liabilities		
Accounts payable	$ 4,633,040	$ 4,145,566
Federal and state income taxes	1,104,594	850,028
Public liability, property damage and other claims	660,330	626,302
Dividends payable	190,763	224,237
Accrued expenses		
Payroll and amounts due lease operators	2,264,170	1,761,736
Taxes other than income	403,768	443,968
Interest	185,389	106,926
Note payable to bank (Note 3)	200,000	250,000
Current maturities of long-term debt	1,546,136	909,090
Total Current Liabilities	11,188,190	9,317,853

Claims Payable

Many motor carriers are self-insured to a specific dollar limit for losses incurred as the result of cargo loss and damage, workers' compensation, and property damage and public liability (related to use of revenue equipment on highways). The general method or methods followed to accrue the aforementioned liabilities are:

Cargo Loss and Damage Claims Under Interstate Commerce Commission regulations, the shipper has up to nine months after shipment in which to file a claim of this type. Generally, a liability is accrued for claims received and not processed at the balance-sheet date. In addition, an amount is usually accrued for unknown claims not received at balance-sheet date by either recording claims occurring prior to the balance-sheet date which are received during a four to six week period subsequent to the balance sheet or providing a liability based on historical experience factors.

Workers' Compensation Claims This liability is usually accrued based on claims filed, with the liability for unsettled claims being estimated based on each individual situation.

Property Damage and Public Liability Claims Generally, the liability is based on the estimated settlement for each known accident. In the case of property damage the dollar amount is a known factor; however, the assumption of any liability may require legal action. Public liability is frequently subject to determination by legal action (e.g., payment of $250,000 in settlement of an accident involving an injury). The reserve for both property damage and public liability is accrued after an accident occurs and is based on the estimated liability determined upon investigation of the accident.

An accrual for overcharge claims is frequently included in this balance sheet caption. This accrual is usually based upon a percentage of revenue, such percentage factor being determined based on historical experience.

Amounts accrued utilizing the above criteria are in compliance with "Statement of Financial Accounting Standards No. 5--Accounting for Contingencies." The two conditions which must be met in order to accrue an estimated loss from a contingency under FASB Statement No. 5 are:

1. Information available prior to issuance of the financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred at the balance-sheet date. It is implicit in this condition that it must be probable that one or more future events will occur confirming the fact of the loss.

2. The amount of loss can be reasonably estimated.

The terminology used to describe the aforementioned claims (self-insurance) could be misleading to those not familiar with the Motor Carrier Industry. Generally, such reserves represent an accrual for an estimated or known liability for claims relating to losses which occurred prior to the balance-sheet date. Of the 31 companies which mention accruals for this type of loss 90% used the term "claims" to describe the liability. The remaining 10% referred to the accruals with the term "self-insurance."

Most reports in the survey showed disclosures for claims payable. This includes the various estimated liabilities for cargo loss, public liability, property damage, personal injury loss, insurance adjustments and overcharge claims. The disclosure of claims payable is summarized in Table 20.

Of those reports disclosing the dollar amount in a separate category on the balance sheet, Table 21 indicates how the liability for such claims was classified.

TABLE 20. SUMMARY OF CLAIMS PAYABLE DISCLOSURE

	No. of Survey Companies
Dollar value shown as a separate category on the balance sheet	24
Described only in a footnote	7
Not present or not disclosed	16
	47

TABLE 21. CLASSIFICATION OF LIABILITY FOR CLAIMS

	No. of Survey Companies
Entire amount as a current liability	20
Portion expected to be paid within one year as a current liability with balance shown as noncurrent	8
Entire amount as a noncurrent liability	2
Classification not indicated	1
	31

EXAMPLES Claims payable

ALLIED VAN LINES, INC.
(Balance Sheet)

	1978	1977
Current Liabilities		
Cargo claims	$ 8,437,000	$ 6,675,000
Bodily injury and property damage claims	1,910,000	1,709,000

(Accounting Policies Footnote)

Cargo Claims. The Company's liability for physical loss or damage to shippers' property is limited by law unless a greater value is declared and the appropriate cargo protection charges are paid by shippers. Agents are charged for cargo claims up to a specified maximum amount per claim. Claims in excess of amounts chargeable to agents are included in expense currently. Liabilities are recorded to reflect claims outstanding plus an estimate for claims incurred but not reported, based on past experience.

Bodily Injury and Property Damage Claims. The Company administers a program which provides, through charges to its agents, a reserve for bodily injury and property damage claims. The charges to each agent under this program are at rates established by the Company based upon historical loss experience and include claims costs, legal expenses, insurance premiums and administrative costs incurred to support the program.

PRESTON TRUCKING COMPANY, INC.
(Balance Sheet)

	1978	1977
Current Liabilities		
Cargo loss, damage, and other claims	$ 1,408,336	$ 1,360,553

(Accounting Policies Footnote)

Insurance and Claims--Losses resulting from claims for personal injury, property damage, cargo loss and damage and other sources are generally covered by insurance subject to certain deductible provisions. The estimated losses in connection with such claims have been recognized in the accounts to the extent they are judged not to be recoverable from the insurance carrier. Additionally, unrecoverable losses in connection with claims not yet reported are provided for on an estimated basis. Losses resulting from collision damage to company-owned equipment and from hospitalization costs of non-union employees are also self-insured. For income tax purposes, such losses are deductible when they become payable.

McLEAN TRUCKING COMPANY
(Balance Sheet)

	1978	1977
Current Liabilities		
Current claims payable, estimated (Note 5)	$ 6,643,000	$ 5,407,000
Reserves		
For claims as self insurer (Note 5)	1,962,000	1,607,000

(Notes to Financial Statements)

Note 5--Reserve for Claims as Self-Insurer:

The Company acts as self-insurer for (1) loss or damage to revenue equipment and (2) workmen's compensation in certain states. Under an agreement with its insurance underwriters, the Company has assumed liability in any single occurrence for bodily injury, property damage, cargo loss and workmen's compensation up to $500,000, with excess liability assumed by the underwriters up to $50,000,000. That portion of the reserve for claims estimated to be payable within one year is classified as a current liability.

Accrued Maintenance

Some carriers accrue maintenance cost on major components of revenue equipment to provide a measure of impairment of an asset not accounted for under depreciation methods required by the regulatory agency. Such accruals are usually classified as other non-current liabilities on the balance sheet since they relate to a reduction in value of a non-current asset, revenue equipment.

A brief discussion of the methodology for this accounting treatment follows:

> Certain equipment manufacturers claim the economic life of a tractor, in terms of miles, is considerably in excess of 1,000,000 miles. However, to obtain this life, certain major components (engine, transmission and differential) will have to be rebuilt in order to function as long as the basic tractor. For example, an over-the-road tractor might require a major engine overhaul (out of frame rebuild) at approximately 300,000 miles. If the economic life of the tractor to a motor carrier is (stated in terms of miles rather than years) 600,000 miles, it is obvious that one engine rebuild will be required. As the cost to rebuild an engine is determinable, it is relatively easy in this example to determine the additional cost per mile for this component (engine) to obtain a life of 600,000 miles (i.e. engine rebuild cost estimated at $3,000; therefore, $3,000 divided by 600,000 miles equals $.005 per mile). The additional cost per mile is accrued based upon those miles incurred by unit, thereby matching costs with revenues earned in the same period as each is generated. When the engine is rebuilt, the cost is charged against the accrued maintenance for that vehicle.
>
> Accordingly, motor carriers which normally expect to utilize tractors in excess of a 300,000 mile life must account for the additional costs necessary to maintain major components over the expected life of the tractor. The method described above (on a period cost per mile basis) related to accrued maintenance expense, provides for major component maintenance costs to remain constant throughout the tractor life. Some carriers recognize the cost of rebuilding a major component at the time of repair, which may fail to allocate appropriate costs to the preceeding period, permitting fluctuation in repair expenses and may result in lack of comparability in financial reporting. Other carriers may elect to amortize expense of major component replacement over the remaining life with no allocation to the preceeding period.

EXAMPLES **Accrued maintenance**

ROADWAY EXPRESS, INC.
(Balance Sheet)

Other Liabilities	1978	1977
Future equipment repaids	$11,841,000	$10,377,000

(Notes to Financial Statements)

Note A—Accounting Policies

. . . . Future equipment repairs is an accrual for estimated costs of anticipated major repairs on intercity tractors. . . . .

COASTAL INDUSTRIES, INC.
(Notes to Financial Statements)

Equipment Repairs

The Corporation provides for the costs of certain anticipated recurring major repairs on tractors based on the estimated useful life of specific components in order to more properly match revenue and expense.

TRANSCON LINES
(Notes to Financial Statements--Form 10-K)

Note 1--Summary Of Accounting Policies

. . . . The future cost of major equipment repairs on line-haul tractors is estimated and charged to expense on a mileage basis. All other maintenance and repairs are charged to expense as incurred.

IU INTERNATIONAL CORPORATION
(Notes to Financial Statements--Form 10-K)

Note 12--Depreciation And Maintenance

. . . . With the exception of certain minor amounts charged against the maintenance reserve, the cost of maintenance, repairs and minor renewals is charged to operating expenses when incurred.

Current Portion of Long-term Debt

Included in this caption was all debt that was required to be paid within the next fiscal year. It included, for example, current portion of notes payable, equipment obligations, real estate mortgages and capitalized leases. The most common method of disclosure is as a separate category or separate line item under current liabilities.

EXAMPLES **Reduction of long-term debt by current maturities**

CW TRANSPORT, INC.
(Balance Sheet)

	1978	1977
Long-term debt (Note 6)		
Mortgages on terminal properties	$ 419,057	$ 328,893
Equipment obligations	3,922	3,922
Notes payable	7,850,000	10,250,000
Total	8,272,979	10,582,815
Due within one year:		
Mortgages on terminal properties	124,249	49,480
Equipment obligations	3,922	3,922
Notes payable	850,000	900,000
Total	978,171	953,402
Total long-term debt	7,294,808	9,629,413

EXAMPLES **One line disclosure in current liabilities**

IU INTERNATIONAL
(Balance Sheet)

Current Liabilities	1978	1977
Long-term debt-current maturities	$106,894	$119,008

Long-term Debt

Many forms of long-term debt were included in this caption. Some of these are equipment obligations, real estate mortgages, bank notes, revolving credit agreements and capitalized leases. The primary caption used on the balance sheet was one line "long-term debt". Most of these items included a reference to a footnote. The details of the long-term debt were then explained in the footnotes to the financial statements.

EXAMPLES Details of long-term debt disclosed in footnote

TRI-STATE MOTOR TRANSIT CO.
(Balance Sheet)

	1978	1977
Long-Term Debt--net of current maturities (Note 3)	$7,391,589	$5,242,678

(Notes to financial statements)

NOTE 3: Note Payable And Long-Term Debt

The note payable at December 31, 1978, consisted of an unsecured note payable to bank in the amount of $200,000 with interest at prime, maturing March 12, 1979. The note balance at December 31, 1977 was $250,000. There were no other short-term borrowings in the two-year period.

Long-term debt consisted of the following:

	December 31, 1978	1977
Revolving credit agreement	$6,456,988	$5,207,823
Equipment obligations maturing through 1983 approximate average rate of 13.75%	76,580	179,618
Real estate obligations 7%--10% maturing through 1987	487,354	764,327
Term note due in 1981, payable in monthly installments of $63,893 plus interest at 1% above prime. The note is collateralized by a security interest in 240,000 shares of the Company's treasury stock	1,916,803	
	8,937,725	6,151,768
Less current maturities	1,546,136	909,090
	$7,391,589	$5,242,678

The revolving credit agreement permits borrowings to the extent of $10,000,000. Interest on the first $500,000 of such borrowings is at prime rate and interest on the remaining $9,500,000 is at 3/4 of 1% above prime rate. A commitment fee of 1/2 of 1% is charged for the unused portion. The terms of the above revolving credit agreement require the total amount borrowed under such agreement to be repaid in forty-eight consecutive monthly installments commencing in 1981; however, the Company may be required to start such monthly installments at an earlier date upon receipt of written notice from the lending institutions. Monthly payments are required, however, to the extent of depreciation of revenue equipment included in the borrowing base. The revolving credit agreement is partially collateralized by an existing security interest in certain equipment. The lenders have the right to request security interests in all revenue equipment and accounts receivable.

Payments required on long-term debt due after December 31, 1978 are as follows:

1979	$1,546,136
1980	1,353,926
1981	1,190,174
1982	1,338,611
1983	1,343,715
1984 and after	2,165,163
	$8,937,725

CAROLINA FREIGHT CARRIERS CORPORATION
(Balance Sheet)

	1978	1977
Long-Term Debt:		
Note payable to insurance company, other notes and loans	$27,699,755	$22,236,022
5-1/2% subordinated convertible debentures	259,000	353,500
Total long-term debt	27,958,755	22,589,522

(Notes to Financial Statements)

Long-Term Debt:

Long-term debt at December 31, 1978 and 1977, consisted of the following--

(continued)

	1978		1977	
	Long-term Portion	Current Portion	Long-term Portion	Current Portion
Revolving credit agreement with banks	$ 2,291,750	$ 208,250	$ 8,250,000	$ 750,000
9.40% Note--The Prudential Insurance Company of America, payable $250,000 commencing on July 1, 1981 through April 1, 1983, $365,000 commencing July 1, 1983 through January 1, 1995 with the balance of $545,000 due on April 1, 1995	19,700,000	-	8,000,000	300,000
Notes payable--Former owners of City Sales, Inc., payable $106,720 quarterly through July 1, 1981	747,043	426,882	1,173,925	426,882
7.25% Note--Cumberland County Development Authority, payable quarterly through 1989, collateralized by certain terminal property	1,165,645	76,867	1,242,560	71,500
Lease agreement--Citicorp Leasing, Inc. payable $41,455, including interest @ 9%, monthly through May, 1985, collateralized by Honeywell Computer System	2,126,605	291,701	2,418,307	266,691
Other	1,668,712	328,770	1,151,230	329,477
Subtotal	27,699,755	1,332,470	22,236,022	2,144,550
5.5% subordinated convertible debentures	259,000	-	353,500	77,500
Total	$27,958,755	$1,332,470	$22,589,522	$2,222,050

The interest rate on the revolving credit agreement is 1/4 of 1% above the Citibank, N.A.'s prime rate. At February 1, 1979 the interest rate was 12%. The unused portion of the maximum commitment under the credit agreement was $7,500,000 at December 31, 1978, ($4,000,000 at December 31, 1977). The agreement is subject to renewal annually on July 1, and in the event it is not renewed, the outstanding balance at termination is payable over sixty months. Amounts that would be due within one year under voluntary termination by either party on the renewal date are included in current maturities.

Informal compensating balances of 20% of the outstanding loan and 10% of the unused commitment exist between the Company and the banks participating in the revolving credit agreement. The compensating balance requirement is measured by average rather than fixed balances. The appropriate level of compensating balances at December 31, 1978 was $1,250,000 ($2,362,500 at December 31, 1977).

The $19,700,000 note agreement with Prudential Insurance Company of America was consummated on September 24, 1978. The proceeds of the 9.40% note were used to retire the outstanding balance of $8,100,000 under the previous loan with Prudential and to reduce the outstanding balance under the revolving credit agreement with Citibank, N.A. The note agreement provides for pro-rata security should the Company create any liens on any of its assets not existing at the time of execution of the note with certain exceptions.

The Company also concluded arrangements with Prudential for an amount up to $3,500,000 in 7-1/2% industrial revenue bonds to be issued in connection with the construction of new terminals. It is anticipated that these bonds will be issued during the first six months of 1979.

The revolving credit agreement and the 9.40% note agreement contain various convenants and restrictions, including requirements for the maintenance of specified debt (including lease obligations) to equity and working capital ratios and limitations on the payment of cash dividends. The Company was in compliance with the various convenants and restrictions during 1978. After consideration of dividends declared on January 2, 1979, future dividends are limited to approximately $2,332,000 plus 70% of future earnings as defined. Under the agreements, noncompliance with stated covenants and restrictions is an event of default which permits the lenders to declare the obligations due and payable on demand.

The interest rate on the notes payable to the former owners of City Sales, Inc. is 1/2% above the Citibank, N.A.'s prime rate with a minimum rate of 8% and a maximum rate of 12%. These notes also include a provision for pro-rata security should the Company create any liens on any of its assets not existing at the time of the execution of the note with certain exceptions.

The lease agreement with Citicorp Leasing, Inc. represents amounts due under a financing lease which has been accounted for as a purchase for financial statement purposes. The computer system becomes the property of the Company at the termination of the lease agreement.

The 5-1/2% subordinated convertible debentures are redeemable at the Company's option at any time at prices declining from 100.88% to par plus accrued interest, and are convertible into common stock at $6.875 per share, subject to adjustments under certain conditions. The debentures, if not redeemed or converted, mature September 1, 1982, and are funded by annual sinking fund payments of approximately $88,500. Because of conversions, no sinking fund payment will be required in 1979.

The aggregate maturities on all long-term debt for the years 1979 through 1983 are (in thousands) $1,332, $1,768, $2,137, $2,383 and $2,560 respectively.

Shareholders' Equity

Four of the forty-seven survey companies have more than one class of common stock outstanding. Thirteen of the balance sheets indicated that preferred shares were also outstanding. Most shareholders' equity sections included a brief description of the types of stock, such as par or stated value per share and the number of shares authorized and outstanding. Separate line items were noted on all balance sheets for additional paid-in capital and retained earnings except for one report which disclosed shareholders' Equity as a one line item on the balance sheet and detailed the components in a footnote. See Section D for current developments related to the classification of redeemable preferred stock.

RLC CORP.
(Balance Sheet)

	1978	1977
Shareholders' Equity	$75,175,000	$63,288,000

(Notes to Financial Statements)

Shareholders' Equity

Changes in the components of shareholders' equity are summarized as follows:

	Stated Value of Preferred Stock	$1 Par Common Stock	Capital in Excess of Par or Stated Values	Retained Earnings
Balance at September 30, 1976	$303,000	$3,992,000	$28,841,000	$13,509,000
Net earnings				16,982,000
Dividends on preferred stock				(503,000)
Dividends on common stock				(567,000)
Conversion of preferred stock	(10,000)	61,000	(51,000)	
Issuance of common stock under stock option plans		73,000	658,000	
Balance at September 30, 1977	293,000	4,126,000	29,448,000	29,421,000
Net earnings				22,193,000
Dividends on preferred stock				(437,000)
Dividends on common stock				(2,780,000)
Conversion of preferred stock	(95,000)	693,000	(598,000)	
Redemption of preferred stock	(1,000)		(68,000)	
Conversion of indebtedness		717,000	6,245,000	
Issuance of common stock under stock option plans		153,000	1,034,000	
Exercise of warrant		15,000	58,000	
3 for 2 common stock split		2,135,000	(2,142,000)	
Spin-off of Brandywine Sports, Inc.				(15,240,000)
Balance at September 30, 1978	$197,000	$7,839,000	$33,977,000	$33,162,000

(continued)

All share amounts and prices have been restated for the 3 for 2 common stock split distributed on December 16, 1977.

The Company is authorized to issue 20,000,000 shares of its $1 par value Common Stock and 1,000,000 shares of Preferred Stock. The preferred shares are without par value, with terms and conditions, of each issue as determined by the Board of Directors. At September 30, 1978, outstanding cumulative convertible preferred shares were comprised as follows:

	Shares		Per Share			
	Originally Issued	Out-Standing	Stated Value	Redemption & Liquidation Value	Voting Rights	Common Shares Convertible Into
$1 Series C	101,377	87,401	$2	$ 30	0.7	1.05
$2 Series D	37,000	22,500	$1	$100	1.0	4.50

The excess of liquidation values over stated values of preferred shares ($4,675,000) places no restrictions on the Retained Earnings or Capital in Excess of Par or Stated Values of the Company.

Under the Company's current stock option plan, options to purchase common stock of the Company may be granted to officers and key employees at not less than 100% of the fair market value at the date of grant.

Changes in outstanding common stock options are summarized as follows:

	Granted and Outstanding	
	Shares	Prices
Balance at September 30, 1976	$407,616	$ 2.00-$11.00
Granted	24,750	6.08- 8.33
Exercised	(108,473)	2.00- 8.00
Cancelled and Expired	(48,208)	2.67- 11.00
Balance at September 30, 1977	275,685	2.00- 8.33
Granted	71,500	10.67- 18.38
Exercised	(197,722)	2.00- 8.00
Cancelled and Expired	(35,200)	7.17- 8.00
Balance at September 30, 1978	$114,263	2.00- 18.38

At September 30, 1978, options for 26,878 shares are exercisable at per share prices ranging from $2.08 to $10.67, and 42,867 shares are available for grant under the Company's stock option plan.

COASTAL INDUSTRIES, INC.
(Balance Sheet)

	1978	1977
Shareholders' Equity--Notes F and G		
6% Cumulative Senior Preferred Stock, $1,000 par value:		
Authorized 700 shares, issued and outstanding--none in 1978 and 350 shares in 1977	-0-	350,000
Less required redemption within one year included in current liabilities	-0-	350,000
	-0-	-0-
6% Cumulative Preferred Stock, $1,000 par value:		
Authorized, issued and outstanding--800 shares	800,000	800,000
Common Stock, $.25 par value:		
Authorized 1,329,000 shares, issued and outstanding 1,126,748 shares	281,687	281,687
Additional paid-in capital	4,632,494	4,632,494
Retained earnings	5,902,337	4,739,113
TOTAL SHAREHOLDERS' EQUITY	11,616,518	10,453,294

(Statement of Shareholders' Equity)

	6% Cumulative Senior Preferred Stock	6% Cumulative Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Total Share-holders' Equity
Balances at October 1, 1976	$ 350,000	$800,000	$281,687	$4,632,494	$3,559,271	$ 9,623,452
Required redemption within one year of 6% Cumulative Senior Preferred Stock	(350,000)	-0-	-0-	-0-	-0-	(350,000)
Net income for the year ended September 30, 1977	-0-	-0-	-0-	-0-	1,523,127	1,523,127
Cash dividends:						
6% Cumulative Senior Preferred Stock--$60.00 a share	-0-	-0-	-0-	-0-	(27,688)	(27,688)
6% Cumulative Preferred Stock--$60.00 a share	-0-	-0-	-0-	-0-	(48,000)	(48,000)
Common Stock--$.2376 a share	-0-	-0-	-0-	-0-	(267,597)	(267,597)
	-0-	-0-	-0-	-0-	(343,285)	(343,285)
BALANCES AT SEPTEMBER 30, 1977	-0-	800,000	281,687	4,632,494	4,739,113	10,453,294
Balances at September 30, 1977--Carried Forward	-0-	800,000	281,687	4,632,494	4,739,113	10,453,294
Net income for the year ended September 30, 1978	-0-	-0-	-0-	-0-	1,555,820	1,555,820
Cash dividends:						
6% Cumulative Senior Preferred Stock--$60.00 a share	-0-	-0-	-0-	-0-	(6,573)	(6,573)
6% Cumulative Preferred Stock--$60.00 a share	-0-	-0-	-0-	-0-	(48,000)	(48,000)
Common Stock--$.30 a share	-0-	-0-	-0-	-0-	(338,023)	(338,023)
	-0-	-0-	-0-	-0-	(392,596)	(392,596)
BALANCES AT SEPTEMBER 30, 1978	$ -0-	$800,000	$281,687	$4,632,494	$5,902,337	$11,616,518

() Indicates deduction

(Notes to Financial Statements)

Note F--Shareholders' Equity

During 1978 the Corporation retired through redemption the remaining 350 shares of the 6% Cumulative Senior Preferred Stock. The 6% Cumulative Preferred Stock is redeemable at the option of the Corporation at $1,000 a share plus any unpaid cumulative dividends from date of issue and only to the extent of net income of the Corporation.

Section F

Income Statement

Income Statement Title

A summary of titles used to describe the income statement is shown in Table 22. Of the companies surveyed, thirty-seven presented their income statement separate from their retained earnings statement. Ten of the reports combined the income statement with the retained earnings statement.

Operating Revenue

Operating revenue includes freight revenue, leasing revenue, revenues from consolidated operations unrelated to motor carrier services and miscellaneous other forms of revenue not disclosed. Types of disclosure used to describe operating revenue in the survey companies are indicated in Table 23.

The majority of the survey companies disclosing the components of operating revenues have substantial non-motor carrier operations. This disclosure was most often set forth in a separate business segment information note to the financial statements.

TABLE 22. SUMMARY OF TITLES USED TO DESCRIBE THE INCOME STATEMENT

	No. of Survey Companies
Statement of income	27
Statement of earnings	15
Statement of operations	3
Statement of net earnings	1
Statement of loss	1
	47

TABLE 23. TYPES OF DISCLOSURE USED TO DESCRIBE OPERATING REVENUE

	No. of Survey Companies
Operating revenue listed as one number on the income statement	34
Component parts of the operating revenue listed on the income statement	13
	47

EXAMPLE Detail of operating revenue

GRAVES TRUCK LINES, INC.
(Income statement)

Operating Revenues (Note 1):	1978	1977
General freight	$60,360,765	$49,679,163
Refrigerated Freight	7,522,871	7,338,532
TOTAL OPERATING REVENUES	$67,883,636	$57,017,695

Revenue Recognition

Twenty-five of the companies included in the survey disclosed their accounting policies regarding their method of recognizing carrier revenue. Table 24 summarizes the methods noted. See section D for current developments related to methods of accounting for revenue.

TABLE 24. SUMMARY OF METHODS USED TO RECOGNIZE CARRIER REVENUE

	No. of Survey Companies
Recognized on date freight is picked up, treatment of costs not disclosed	8
Recognized on date of delivery	5
Recognized on date freight is picked up with anticipated costs accrued	1
Recognized on percentage of completion	5
Recognized on date freight is picked up with costs charged to period incurred	5
	24

EXAMPLES Revenue recognition

YELLOW FREIGHT SYSTEM, INC.
(Accounting Policies Footnote)

Operating revenues are recognized at the time the shipment is received from the customer. Expenses associated with the operating revenues are recognized when incurred.

CONSOLIDATED FREIGHTWAYS, INC.
(Accounting Policies Footnote)

Recognition of Revenues: The motor carrier and air freight forwarding subsidiaries of the Company recognize freight charges as revenue when freight is received for shipment. Estimated costs of performing the total transportation services are then accrued. The manufacturing subsidiaries recognize revenue when completed trucks and manufactured parts are shipped.

ARKANSAS BEST CORPORATION
(Accounting Policies Footnote)

Revenue Recognition: Carrier operating revenues are recognized on the date the shipments are picked up from the customer.

TRANSCON LINES
(Accounting Policies Footnote)

Revenue Recognition: Operating revenues for freight in transit are recognized generally on a pro rata basis with the incurrence of the related transportation and delivery costs.

ROADWAY EXPRESS, INC.
(Accounting Policies Footnote)

Earned revenue--The company recognizes revenue as earned on the date of freight delivery to consignee. Some motor carriers recognize revenue as earned on the date of freight pickup from shipper.

Operating Expense Format

Seventy-seven percent of the survey companies utilized the natural classification for operating expenses in 1978. The most frequently used classification was to summarize all operating expenses and present only a total. This type of disclosure was frequently used by those companies with significant non-carrier operations. Table 25 summarizes the various reporting formats noted in the survey companies.

TABLE 25. SUMMARY OF OPERATING EXPENSE FORMAT

	No. of Survey Companies
Natural classification	36
Activity classification	2
Other, primarily shows total operating expenses only	9
	47

EXAMPLE Operating expense format--natural classification

MURPHY MOTOR FREIGHT LINES, INC.
(Income statements)

	1978	1977
Operating expenses:		
Salaries, wages and employee benefits	$44,664,958	$38,148,852
Operating supplies and expenses	15,243,275	13,533,252
Operating taxes and licenses	1,898,041	1,833,426
Insurance and safety	1,551,432	1,302,150
Communication and utilities	1,072,298	877,157
Depreciation, net of gains on disposals of revenue equipment of $581,355 in 1978 and $291,961 in 1977	2,409,417	2,258,824
Rent and purchased transportation	2,640,355	2,056,194
Miscellaneous expenses	498,021	225,460
Total operating expenses	$69,977,797	$60,235,315

EXAMPLE Operating expense format--activity classification

PRESTON TRUCKING COMPANY, INC.
(Income statement)

	1978	1977
Operating expenses:		
Linehaul	$ 37,527,317	$ 30,532,237
Pickup and delivery	42,176,757	34,735,226
Billing and collecting	3,113,782	2,630,553
Platform	25,025,484	20,157,127
Terminal	7,598,990	6,716,478
Maintenance	2,862,791	2,142,151
Traffic and sales	3,539,389	3,167,628
Insurance and safety	2,185,649	1,777,565
Depreciation	5,636,680	5,190,688
General and administrative	3,841,289	3,508,674
Total operating expenses	$133,508,128	$110,558,327

EXAMPLE Operating expense format--other

THE BEKINS COMPANY
(Income statement)

	1978	1977
Costs and expenses:	(Thousand of dollars)	
Operating costs	$189,246	$150,262
Administrative, general and selling expenses	54,273	44,175
Interest	1,291	234
	$244,810	$194,671

Sale of Depreciable Assets

A summary of the methods of disclosure made on a gain or loss on sale of depreciable assets is shown in Table 26.

TABLE 26. SUMMARY OF DISCLOSURE FOR SALE OF DEPRECIABLE ASSETS

	No. of Survey Companies
Included in operating income or expenses	17
Included in other income or expenses	14
No disclosure made	16
	47

Of the seventeen survey companies who include gains or losses on sale of depreciable assets in operating income or expenses, eleven showed the net gain or loss as a separate line item while four others adjusted depreciation expense. Two of the companies indicated in the accounting policies footnote that gains and losses were included in operating income or expenses, however no separate line item or other indication of depreciation adjustment was made.

EXAMPLES **Sale of depreciable assets**

SMITH's TRANSFER CORPORATION
(Income statement)

Other expenses (Income)	1978	1977
Interest and other debt expense	5,906,131	2,653,206
Net (gain) on disposal of property, plant and equipment	(2,529,354)	(2,638,788)
Other--net	494,439	8,058
	3,871,216	22,476

OVERNITE TRANSPORTATION COMPANY
(Income statement)

Operating expenses:		
Salaries, wages and fringe benefits	106,336,000	82,677,000
Operating supplies and expenses	26,973,000	20,897,000
General supplies and expenses	5,953,000	4,793,000
Operating taxes and licenses	7,230,000	5,978,000
Insurance	4,510,000	3,381,000
Communications and utilities	3,097,000	2,624,000
Depreciation	11,586,000	9,485,000
Revenue equipment rents and purchased transportation	896,000	793,000
Building and office equipment rents	1,223,000	1,036,000
Gain on disposition of revenue equipment, net	(844,000)	(208,000)
Miscellaneous expenses	852,000	373,000
	167,812,000	131,829,000

LEASEWAY TRANSPORTATION CORPORATION
(Income statement)

	1978	1977
Operating Costs and Expenses		
Direct operating costs	$569,350,564	$491,549,455
Depreciation, less gain on sale of equipment of $10,293,677 and $6,556,095	116,904,850	99,462,589
Administrative and selling expenses	53,227,308	43,588,494
	$739,482,722	$634,600,538

Depreciable Asset Trade-ins

A majority of the survey companies included gains and losses from trade-ins of revenue equipment in the statement of income. Table 27 summarizes the treatment of gains and losses on trade-ins of revenue equipment.

TABLE 27. TREATMENT OF GAINS AND LOSSES ON DEPRECIABLE ASSET TRADE-INS.

	No. of Survey Companies
Include in statement of income	40
Used as an adjustment of the basis of the replacement asset	5
No disclosure made	2
	47

EXAMPLES Depreciable asset trade-ins

ASSOCIATED FREIGHT WAYS, INC.
(Accounting Policies Footnote)

Property, Equipment and Depreciation

Assets are stated at cost. Depreciation is computed over the estimated useful lives of the assets by the straight-line method for financial reporting purposes and primarily by accelerated methods for income tax purposes.

The cost of maintenance and repairs of property and equipment is charged to expense as incurred; renewals and betterments are capitalized. The cost of tires and tubes on trucks, tractors and trailers used in common carrier operations is charged to expense when the tires and tubes are placed in service.

The cost of properties sold or otherwise disposed of and the related allowances for depreciation are removed from the accounts at the time of disposal and any resulting gains or losses are reflected in the statement of income. Also, Truck Lines recognizes gains or losses on trade-ins of revenue equipment currently in the statement of income.

YELLOW FREIGHT SYSTEM
(Accounting Policies Footnote)

Maintenance and repairs are charged to operations currently; replacements and improvements are capitalized in the property accounts. When revenue equipment is traded, the basis of the new equipment is adjusted to reflect any difference between the trade-in allowance and the basis of the old equipment. Upon sale or retirement of all other operating property, the cost and accumulated depreciation are removed from the accounts and any gain or loss is reflected in other non-operating income.

MID-AMERICAN LINES, INC.
(Accounting Policies Footnote)

D. Depreciation And Maintenance

Depreciation on new road tractors is provided at a rate of 16% annually for the first four years and 5-3/4% annually for the last four years of depreciable life. Depreciation on all other property is provided on a straight-line basis on each class of depreciable property at rates considered adequate to recover cost less residual value.

Lives generally used in computing depreciation are 6 to 8 years for revenue equipment, 20 to 30 years for structures and 5 to 10 years for other operating property.

Maintenance is charged to operations currently; replacements and improvements are capitalized in the property accounts. Upon disposition of property and equipment, the cost and accumulated depreciation are removed from the accounts, and any gain or loss reflected in income. Dispositions of revenue equipment resulted in net gains of $176,170 in 1978 and $38,314 in 1977 which have reduced depreciation expense.

Interest expense

Interest expense was included as a non-operating expense on all survey company reports which distinguished between operating and non-operating expenses.

EXAMPLES Interest expense

BRIGGS TRANSPORTATION COMPANY
(Income statement)

	1978	1977
Other Deductions (Income):		
Interest expense	$1,508,091	$1,129,911
Gain on disposal of property and equipment	(350,304)	(241,159)
Interest income	(38,037)	(17,221)
Miscellaneous, net	108,260	(7,237)
	$1,228,010	$ 864,294

TRI-STATE MOTOR TRANSIT COMPANY
(Income statement)

	1978	1977
Other Income (Expenses)		
Interest expense	$(855,412)	$(574,063)
Gain on sale of equipment	152,952	447,483
Miscellaneous, net	94,973	46,865
	$(607,487)	$(79,715)

GRAVES TRUCK LINE, INC.
(Income statement)

	1978	1977
Other Income (Expenses):		
Interest expense	$(136,250)	$(96,373)
Interest income	126,253	151,290
Miscellaneous, net	(15,633)	(8,569)
Total other income (expenses)	$ (25,630)	$ 46,348

Income Taxes

All reports included in the survey included federal income taxes on their income statement. Disclosure of federal income taxes included the current and deferred portion where applicable. Also this disclosure included state income taxes in a number of reports. The methods of disclosure are shown in Table 28.

ASR No. 149 requires certain additional disclosures relating to federal income tax expense for all financial statements filed with the SEC. Examples of such disclosures are included below.

TABLE 28. METHOD OF INCOME TAX DISCLOSURE

	No. of Survey Companies
Current and deferred shown on the income statement	19
Income taxes shown as one number on the income statement with footnote disclosure of components	28
	47

EXAMPLES Methods of income tax disclosure

SPECTOR INDUSTRIES, INC.
(Income statement)

	1978	1977
Income tax provision (note 6)	$2,369,000	$1,650,000

(Notes to Financial Statements)

(6) Income Taxes: The Company's tax provision is composed of the following elements:

	1978	1977
Current		
Federal	$2,369,000	$ 410,000
State	689,000	343,000
Canadian	28,000	10,000
	3,086,000	763,000
Deferred		
Federal	(717,000)	887,000
Total provision	$2,369,000	$1,650,000

Actual tax expense differs from the "expected" tax based upon the Federal corporate rate of 48% applied to income before provision for income taxes as shown below:

	1978		1977	
	Amount	%	Amount	%
Tax provision at "expected" rate	$3,742,000	48.0	$2,584,000	48.0
State taxes	358,000	4.6	178,000	3.3
Investment tax credit	(1,806,000)	(23.2)	(1,274,000)	(23.6)
Other items--net	75,000	1.0	162,000	3.0
Tax provision	$2,369,000	30.4	$1,650,000	30.7

Deferred tax expense resulting from timing differences in the recognition of income and expense for tax and financial purposes consists of:

	1978	1977
Expense accruals not currently deductible	$(519,000)	$ (478,000)
Tax depreciation in excess of financial statement depreciation	127,000	(292,000)
Investment tax credits	717,000	(887,000)
Tax gain in excess of financial statement gain on installment sale and leaseback of properties	(346,000)	-
Tax gain in excess of book gain on sale of revenue equipment	(649,000)	-
Reinstatement of deferred taxes due to utilization of loss carryforward	-	2,552,000
Other items--net	(47,000)	(8,000)
	$(717,000)	$ 887,000

At December 31, 1978, there was available to the Company and its subsidiaries for income tax purposes, investment tax credit carryforwards of approximately $4,320,000. These carryforwards, if not used, will expire as follows (000 omitted):

1981	$ 605
1982	700
1983	260
1984	1,545
1985	1,210
	$4,320

At December 31, 1978, there was available for financial statement purposes approximately $3,355,000 of investment tax credit carryforwards to offset income tax provisions.

RLC CORP.
(Income statements)

	1978	1977
Taxes on income:		
Currently payable state	$ 1,221,000	$ 693,000
Currently payable federal	3,927,000	99,000
Deferred federal	6,201,000	5,761,000
Total taxes on income	$11,349,000	$6,553,000

(Notes to financial statements)

Income Taxes

The provision for deferred federal income taxes results from the treatment of certain income and expense items, principally depreciation, differently for tax purposes than financial statement purposes.

The difference between the amount computed by applying the statutory rate of 48% to earnings before income taxes and the effective tax rate of 35.5% and 31% for 1978 and 1977, respectively, is due primarily to the following:

	1978	1977
Earnings before income taxes	$34,445,000	$24,612,000
Computed federal tax at statutory rate	$16,534,000	$11,814,000
State income taxes	650,000	419,000
Investment credit earned	(4,385,000)	(2,833,000)
Investment credit carryforward utilized	--	(1,915,000)
Capital gains	(242,000)	--
Other	(310,000)	145,000
Taxes on Income	$12,247,000	$ 7,630,000

At September 30, 1978, the Company had $10,100,000 of investment credit carryforwards for federal income tax purposes.

EXAMPLES Income tax disclosure

WILSON FREIGHT COMPANY
(Notes to Financial Statements)

Note H--Federal Income Taxes

The deferred income tax provision (credit) results from the following timing differences:

	1978	1977
Accelerated depreciation	$(105,503)	$ 199,415
Basis of depreciable asset disposals	(21,036)	16,822
Prepaid pension	(105,840)	(60,480)
Prepaid tires	346,624	196,066
Self-insurance reserves	(272,049)	(184,005)
Other	(26,196)	70,025
Deferred Income Tax Provision (Credit)	$(184,000)	$ 237,843

A reconciliation of the difference between total provision (credit) for income taxes and the amount computed by using the statutory rate follows:

48% of earnings (loss) before income taxes and equity in net loss of Strickland Transportation Company, Inc. (credit)	$(1,745,200)	$1,636,500
State income taxes, net of federal tax benefit	19,100	161,200
Investment tax credit	(870,300)	(167,108)
Other	(61,100)	(62,992)
Provision (Credit) For Income Taxes	$(2,657,500)	$1,567,600

EXAMPLES Income tax disclosure

MID-AMERICAN LINES, INC.
(Income statement)

	1978	1977
Income Tax Expense Benefit		
Benefit (Note 2)	$(245,699)	$255,279

(Notes to Financial Statements)

2. Income Taxes:

Income tax expense consists of the following components:

	1978	1977
Current		
Federal	$ --	$ --
State	39,000	46,421
	$ 39,000	$ 46,421
Deferred Tax Expense (Benefit)--		
Reinstatement of previously deferred income taxes	$ --	$ 26,100
Accelerated depreciation	(110,004)	195,625
Prepaid tires, taxes and licenses expensed for tax purposes	(76,479)	58,984
Disposition of property	(28,434)	(53,055)
Reserves not expensed for tax purposes	(78,762)	(68,850)
Other, net	(6,809)	(7,831)
	$(300,488)	$150,973
Tax credits--		
Investment tax credit deferred	$ 69,874	$ 80,885
Amortization of investment tax credit	(54,085)	(23,000)
	$ 15,789	$ 57,885
	$(245,699)	$255,279

(continued)

Deferred income tax expense results from timing differences in the recognition of expense for tax and financial statement purposes. Income taxes on these differences have been provided at the current income tax rates and are classified as a current liability or as a deferred credit based upon the classification of the related asset or liability giving rise to the difference.

The total provision (benefit) for income taxes is (81.9%) in 1978 and 38.4% in 1977. The percentage is computed by dividing total income tax expense by the sum of such tax expense and net income. The following table reconciles to total income taxes as reported from expected income tax amounts which are computed by applying 48% to income (loss) before income taxes.

	1978	1977
Expected income tax expense (benefit)	$(143,993)	$326,401
Amortization of carrier operating authority	6,682	7,334
Book and tax basis differences on dispositions of authority and property	(4,490)	(3,238)
Benefit of capital gains tax rate	(11,575)	(38,184)
Utilization of new jobs tax credit	(44,115)	(7,885)
Amortization of investment tax credit	(54,085)	(23,000)
State income taxes, net of Federal income tax benefit	20,280	24,139
Other, net	(14,403)	(30,288)
Total income tax expense (benefit)	$(245,699)	$255,279

The Federal investment tax credit has been deferred in the year in which it has been utilized to reduce income taxes and is being amortized over the service lives of the related assets.

The Company has approximately $753,000 of Federal investment tax credit carryforward. At December 31, 1978, this carryforward, which has not been reflected in the accompanying financial statements, expires as follows:

1980	$ 26,000
1981	66,000
1982	48,000
1983	237,000
1984	301,000
1985	75,000
	$753,000

MERCHANTS, INC.
(Income statement)

	1978	1977
Provision for federal income tax (Note 2)		
Current	$5,931,224	$4,448,026
Deferred	556,863	350,131
	6,488,087	4,798,157

(Notes to financial statements)

2/ Income taxes

Credits to income resulting from amortization of investment tax credits were $355,666 in 1978 and $320,600 in 1977. Unamortized investment tax credits at December 31, 1978 and 1977 were $1,517,000 and $1,237,000, respectively.

The deferred tax provision is summarized as follows:

	1978	1977
Excess of tax over book depreciation	$380,346	$302,443
Deferred investment tax credit	280,287	106,911
Other	(103,770)	(59,223)
	$556,863	$350,131

FLEXI-VAN CORPORATION
(Income statement)

	1978	1977
Provision for federal and state income taxes (Note 2):		
Current	$ 266,000	$1,848,000
Deferred	7,793,000	5,149,000
	8,059,000	6,997,000

(Notes to Financial Statements)

2. Federal and State Income Taxes

The provision for federal income tax is based on the prevailing statutory rate, adjusted for utilization of investment tax credits. Income tax expense is made up of the following components:

	1978	1977
Federal taxes, less investment tax credits of $6,000,000 and $5,667,000 respectively	$6,392,000	$5,802,000
State taxes	1,667,000	1,195,000
	$8,059,000	$6,997,000

Deferred tax expense results primarily from excess of tax over book depreciation.

The Company has $25,457,000 of investment tax credit carryovers which are available to reduce future Federal income tax liability and which expire in various amounts through 1985. For financial reporting purposes, these carryovers have been used to reduce the deferred Federal income tax liability.

Investment Tax Credits—Methods of Recognition

The predominant method used by the survey companies to account for the investment tax credit is the "flow through" method. Thirty-one carriers recognized the investment tax credit using the "flow through" method and sixteen recorded it using the "deferral method".

EXAMPLE Flow through method

EAZOR EXPRESS, INC.
(Accounting Policies Footnote)

d. Income taxes: Deferred income taxes are provided to reflect the tax effect of timing differences between financial statement and tax reporting, principally related to depreciation and amortization, claims, and capitalized leases. Investment tax credits are recognized as a reduction of income tax expense during the year in which they are used (flow-through method).

EXAMPLE Deferral method

NATIONAL CITY LINES, INC.
(Accounting Policies Footnote)

The Company utilizes the deferred method of accounting for investment tax credits and amortizes such credits to income over the lives of the related property.

Investment Tax Credits—Other Disclosures

Virtually all reports disclosed the amount of investment tax credit utilized. Table 29 indicates the methods used by the survey companies.

TABLE 29 METHODS USED TO DISCLOSE AMOUNT OF INVESTMENT TAX CREDIT UTILIZED

	No. of Survey Companies
Disclosed in a footnote	42
Shown on the income statement	4
Not disclosed	1
	47

EXAMPLES Disclosure of investment tax credit

MAYFLOWER CORPORATION
(Income statements)

	1978	1977
Federal Income Taxes (Notes 1D and 2):		
Current	$2,961,000	$3,744,000
Deferred	(386,000)	(232,000)
Investment tax credit	(306,000)	(260,000)
	2,269,000	3,252,000

MIDWESTERN DISTRIBUTION, INC.
(Notes to financial statements)

F. Provision for Income Taxes:

	Year ended December 31	
	1978	1977
Federal:		
Currently payable	$1,891,020	$2,028,270
Deferred tax charges	(51,100)	(47,850)
Deferred tax credits	144,000	60,500
	1,983,920	2,040,920
Investment credit	(589,320)	(572,920)
	1,394,600	1,468,000
State:		
Currently payable	193,400	317,000
Refund from prior years	(385,000)	-
	$1,203,000	$1,785,000

(continued)

The Company's effective tax rate was 29.2% in 1978 and 38.9% in 1977. Reconciliation of the statutory rate of 48% and these rates may be summarized as follows:

	Year ended December 31			
	1978		1977	
	Amount	%	Amount	%
Statutory rate	$1,976,380	48.0	$2,204,420	48.0
Investment credit	(589,520)	(14.3)	(572,920)	(12.5)
State income tax refund	(184,800)	(4.5)		
New jobs credit	(52,000)	(1.3)	(29,520)	(.6)
State income taxes	92,830	2.3	152,160	3.3
Other, net	(40,090)	(1.0)	30,860	.7
	$1,203,000	29.2	$1,785,000	38.9

Earnings Per Share

Earnings per share were disclosed in different forms depending on the various dilutive effects or extraordinary items peculiar to the individual report.

EXAMPLES Disclosure of earnings per share

RYDER SYSTEM, INC.
(Income statement)

	1978	1977
Earnings per common and common equivalent share:		
Primary (net of earnings coverage for preferred dividends)	$3.60	$2.73
Fully diluted	$3.53	$2.63

(Accounting policies footnote)

(m) Earnings Per Share

Primary earnings per share are computed by dividing net earnings, after provision for preferred dividends, by the weighted average number of shares of common stock and common stock equivalents outstanding during the year. Common stock equivalents consist of the average number of shares, computed quarterly, issuable upon the exercise of all employee stock options and outstanding employee stock subscriptions, if dilutive, less the common shares which could have been purchased, at the average market price during each quarter, with the assumed proceeds from the exercise of the options and subscriptions.

In computing fully diluted earnings per share, earnings available for common shares are assumed to have been increased by the dividends on the convertible preferred stock as if it had been converted. The weighted average number of shares of common and common stock equivalents is increased by the shares that would be issued assuming the conversion of the convertible preferred stock. In addition, common stock equivalents are recomputed to assume the purchase of shares at each quarter-end market price if higher than the average market price during the quarter.

GATEWAY TRANSPORTATION CO., INC.
(Income statement)

	1978	1977
Per share of common stock based on average shares outstanding during the years:		
Loss from motor carrier operations	$(1.31)	$(.56)
Equity in undistributed earnings of unconsolidated insurance company	.13	.32
Net loss	$(1.18)	$(.24)

(Accounting policies footnote)

Income (Loss) per Share

Income (loss) per share has been computed based upon the weighted average number of outstanding common shares which were 1,315,735 and 1,360,131 in 1978 and 1977, respectively.

TELECOM CORPORATION
(Income statement)

	1978	1977
Earnings per share	$1.58	$1.80

(Accounting policies footnote)

Earnings Per Share

Earnings per share are calculated based on the weighted average number of common shares outstanding during the years adjusted for stock options, if applicable, which are considered common stock equivalents. Earnings per share were based on 1,899,995 and 1,875,018 shares for the years ended December 31, 1978 and 1977, respectively.

Section G

Statement of Changes in Financial Position

This Statement was included in the audited financial statements of all the survey companies' reports. The frequency of the presentation formats used for the statement is shown in Table 30.

TABLE 30 FUNDS STATEMENT FORMAT USED BY SURVEY COMPANIES

	No. of Survey Companies
Sources equal applications	13
Sources less applications equal working capital change	30
Balance of working capital at end of year	4
	47

EXAMPLES Format of statements of changes in financial position

DELTA CALIFORNIA INDUSTRIES
(Statement of Changes in Financial Position)

	1978 (Thousands)	1977	1976	1975	1974
Working capital was provided by:					
Operations:					
Income from continuing operations	$ 2,556	$ 1,266	$ 971	$ 960	$1,022
Discontinued International Distribution business		(1,134)	(91)	(160)	(85)
Items not affecting working capital:					
Depreciation and amortization (I)	3,667	4,188	2,756	3,093	2,836
Net book value of equipment sold or retired	108	218	197	825	61
Gain on sale of property (A)	(226)	(93)			
Noncurrent portion of taxes on income	(1,269)	(139)	(37)	(75)	136
Total from operations	4,836	4,306	3,796	4,643	3,970

(continued)

	1978	1977	1976	1975	1974
	(Thousands)				
Proceeds from disposition of property	806	824			
Additions to long-term debt	6,941	11,155	148	3,336	4,454
Issuance of stock under employee stock purchase plan		256			
Other	82				320
	12,655	16,541	3,944	7,979	8,744
Working capital was applied to:					
Additions to property and equipment	6,227	4,604	1,282	1,942	6,297
Purchase of Motor Carrier Businesses--intangible assets portion (B)	2,315	4,814			
Purchase of International Distribution business--intangible assets portion (A)					1,340
Reduction of long-term debt	7,425	3,499	2,036	4,609	1,247
Cash dividends	380	352	343	346	353
Purchase of treasury shares			31	123	130
Other		76	282	47	
	16,347	13,345	3,974	7,067	9,367
Increase (decrease) in working capital	$(3,682)	$ 3,196	$ (30)	$ 912	$ 623
Changes in components of working capital:					
Increase (decrease) in current assets:					
Cash and short-term investments	$ (407)	$ 341	$ 393	$ 338	$ (477)
Receivables	(887)	2,874	2,312	842	3,302
Operating supplies, inventories and tires and tubes	899	259	428	76	550
Other prepaid expenses	(231)	543	562	(123)	(163)
	(626)	4,017	3,695	1,133	3,212
Increase (decrease) in current liabilities:					
Accounts payable, accrued and estimated liabilities	28	1,675	3,589	(1,016)	3,701
Taxes on income	2,252	(1,029)	352	662	141
Long-term debt due within one year	776	175	(216)	575	(7)
	3,056	821	3,725	221	3,835
Increase (decrease) in working capital	$(3,682)	$ 3,196	$ (30)	$ 912	$ (623)

REPUBLIC VAN LINES, INC.
(Statements of Changes in Financial Position)

	1978	1977
Working capital provided:		
Proceeds from long-term debt	$ -	$ 800,000
Disposition of property and equipment	549,793	521,305
Other	4,364	18,000
Decrease in working capital	3,014,844	1,023,002
Total working capital provided	$3,569,001	$2,362,307
Working capital used:		
In operations:		
Net loss	$1,167,416	$1,653,544
Items which do not (use) provide working capital:		
Depreciation and amortization of property and equipment	(215,438)	(297,558)
Amortization and write-off of goodwill	-	(497,376)
Deferred income taxes	-	84,000
Write-off of deferred charges	-	(95,446)
Working capital used in operations	951,978	847,164
Additions to property and equipment	562,810	1,103,791
Reduction or reclassification of long-term debt	1,940,000	282,632
Other	114,213	128,720
Total working capital used	$3,569,001	$2,362,307
Changes in components of working capital:		
Increase (decrease) in current assets:		
Cash	$ (3,139)	$ (476,287)
Accounts receivable	1,965,500	(475,334)
Federal and state income taxes recoverable	(73,100)	109,000
Due from affiliated companies	(66,174)	(175,196)
Deposits and prepaid expenses	(188,156)	15,321
	1,634,931	(1,002,496)
Increase (decrease) in current liabilities:		
Notes payable to banks	2,821,596	12,347
Other notes payable	(6,416)	6,416
Accounts payable and accrued expenses	1,141,021	(52,319)
Estimated liability for cargo loss and other claims	120,602	30,000
Due to affiliated companies	572,972	24,062
	4,649,775	20,506
Decrease in working capital	$3,014,844	$1,023,002

U.S. TRUCK LINES, INC. OF DELAWARE
(Statement of Changes in Financial Position)

	1978	1977
Source:		
From operations:		
Net income	$10,229,794	$ 7,625,542
Items not requiring (providing) working capital:		
Depreciation and amortization	7,299,904	6,644,994
Deferred federal income tax	389,900	(133,400)
Disposal of plant and equipment, principally trucks, tractors and trailers	968,442	831,058
From operations	18,888,040	14,968,194
Investments sold or reclassified to current	8,609,770	9,264,596
	27,497,810	24,232,790
Application:		
Purchases of plant and equipment, principally trucks, tractors and trailers	13,232,211	9,134,264
Cash dividends	5,832,414	4,935,119
Investments purchased	8,400,000	5,300,000
Other	59,101	64,301
	27,523,726	19,433,684
Increase (decrease) in working capital	(25,916)	4,799,106
Working capital at beginning of year	16,134,529	11,335,423
Working capital at end of year	$16,108,613	$16,134,529
Changes in working capital components:		
Cash	$(1,047,904)	$ 366,578
Certificates of deposit and short-term investments	(132,120)	3,995,723
Accounts receivable	1,572,844	1,412,130
Prepaid expenses and operating parts and supplies	352,743	75,758
Accounts payable	(449,508)	(123,810)
Accrued expenses	(607,364)	(480,838)
Accrued federal income tax	358,809	(682,212)
Public liability and cargo claims for losses not covered by insurance	(73,416)	235,777
Increase (decrease) in working capital	$ (25,916)	$ 4,799,106

Section H

Accounting Policies Footnotes

APB Opinion No. 22 requires disclosure of accounting policies in the notes to the financial statements. All reports reviewed had an accounting policies footnote or a summary of accounting principles. The titles most commonly used were "accounting policies" or "accounting principles." The more frequent types of subject matter included in the accounting policies footnotes and the frequency of disclosure are shown in Table 31.

It should be noted that APB Opinion No. 22 requires disclosure of "Principles and methods peculiar to the industry in which the reporting entity operated, even if such principles and methods are predominantly followed in that industry." The subjects that appear to be peculiar to the motor carrier industry are operating rights, ICC regulations, tires, claims, and revenue recognition.

It should also be noted that some policies may be disclosed in separate footnotes, and that the following tabulation includes only those items described in the principles or policies section.

TABLE 31. SUMMARY OF SUBJECT MATTER INCLUDED IN ACCOUNTING POLICY FOOTNOTE

	No. of Survey Companies		No. of Survey Companies
Depreciation and/or equipment	47	Inventories	17
Consolidation	44	Marketable securities and/or investments	3
Income taxes	30	Revenue recognition	25
Operating rights	44	Stock options	5
Interstate Commerce Commission regulations	9	Foreign currency transactions	4
Tires and tubes	24	Reclassification of income statement	6
Earnings per share	28	Allowance for bad debts	2
Investment tax credits	41	Fiscal year end	3
Pensions and/or profit sharing	17	Installment sales	2
Deferred or incentive compensation	3	Business segment	2
Self-insurance or claims liability	22	Reserve for future equipment repairs	2
		Leasing activities as lessor	5

EXAMPLES Accounting policies footnotes

PENN-YAN EXPRESS, INC.

1. Summary of Significant Accounting Policies

A. Fiscal year--The Company's fiscal year normally consists of 13 four-week periods for a total of 52 weeks. Once every five or six years, an extra week will be included in order to keep the fiscal year in near alignment with the calendar year.

B. Principles of Consolidation--The accompanying financial statements include the accounts of Penn Yan Express, Inc. and three wholly-owned subsidiaries after elimination of all significant intercompany accounts and transactions.

C. Specialized Industry Accounting Principles--The consolidated financial statements have been prepared in conformity with generally accepted accounting principles which differ from accounting regulations of the Interstate Commerce Commission with respect to the recording of certain operating rights acquired.

D. Tires in Service--Tires in service are accounted for by capitalizing them in the year of acquisition, and expensing them over their useful lives.

E. Tangible Property and Depreciation--Tangible property is carried at cost. Major additions and betterments are charged to property accounts while maintenance and repairs which do not improve or extend the life of the respective assets are expensed currently. When property is retired or otherwise disposed of, the difference between cost less accumulated depreciation and proceeds of sale or trade-in allowances is charged or credited to earnings.

The provision for depreciation is based principally on the straight-line method. The estimated useful lives used in computing depreciation are:

Terminals and offices	20-40 years
Revenue equipment	6- 8 years
Other operating equipment	3-10 years

F. Intangible Assets--The intangible assets consist principally of operating rights purchased. Intangibles originating prior to November 1, 1970 are not being amortized because in the opinion of management there has been no decrease in their value. Intangibles arising after October 31, 1970 ($659,240) are being amortized by the straight-line method over forty years.

G. Income Taxes--Provisions for income taxes are based on the tax effects of transactions which are included in the determination of pre-tax accounting income, and appropriate provision is made for deferred income taxes.

Deferred income taxes result principally from: (a) the use of accelerated depreciation methods for tax purposes and primarily straight-line methods for financial statement purposes; (b) adjusting the basis of revenue equipment acquired for gains and losses on trade-ins for tax purposes and charging or crediting income for financial statement purposes; (c) deducting for tax purposes amounts relating to self-insured claims in year of payment and providing for estimated liability for such claims in the periods of incidents for financial statement purposes; and (d) deducting tire costs at the time tires are placed in service for tax purposes and recognizing tires as an asset and expensing them over their useful lives for financial statement purposes.

The investment tax credit is treated by the Company as a reduction of Federal income taxes in the period in which the credit arises.

H. Estimated Liability for Injury, Loss and Damage Claims--For the self-insured portion of cargo loss and damage claims, amounts are provided for liabilities expected to be incurred for loss and damage. Amounts provided are based primarily on historical payment experience applied to unsettled claims and an estimate for claims unreported.

For the self-insured portion of other claims the Company provides estimated amounts of liabilities expected to be incurred based on specific identification of incidents which have occurred.

I. Revenue Recognition--Operating revenues and related costs are recognized as of the date the freight is picked up.

ASSOCIATED FREIGHTWAYS, INC.

1. Accounting Policies

Associated Truck Lines, Inc. (Truck Lines), Road Equipment, Inc. (Road Equipment), and New Life Transport Parts Center, Inc., are the subsidiaries of Associated Freightways, Inc. (Freightways). Associated Central Terminal Company and Motorway Cartage Company are subsidiaries of Truck Lines. On March 31, 1977, all of the outstanding shares of Freightways were acquired by American Natural Resources Company (American Natural). Truck Lines is subject to accounting and rate regulations of the Interstate Commerce Commission (ICC) and various state commissions. These financial statements have been prepared in accordance with generally accepted accounting principles which differ from accounting regulations of the ICC with respect to the amortization of operating rights.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Freightways and its subsidiaries. All material intercompany accounts and transactions have been eliminated. The equity method of accounting is used for reflecting a subsidiary's 50% interest in an unincorporated joint venture.

Property, Equipment and Depreciation

Assets are stated at cost. Depreciation is computed over the estimated useful lives of the assets by the straight-line method for financial reporting pruposes and primarily by accelerated methods for income tax purposes.

The cost of maintenance and repairs of property and equipment is charged to expense as incurred; renewals and betterments are capitalized. The cost of tires and tubes on trucks, tractors and trailers used in common carrier operations is charged to expense when the tires and tubes are placed in service.

The cost of properties sold or otherwise disposed of and the related allowances for depreciation are removed from the accounts at the time of disposal and any resulting gains or losses are reflected in the statement of income. Also, Truck Lines recognizes gains or losses on trade-ins of revenue equipment currently in the statement of income.

Operating Rights

Operating rights are stated at cost and consist primarily of the excess of cost over the net assets of various motor carriers acquired. In the opinion of management, these rights have a perpetual existence and have not decreased in value; however, rights acquired after October 30, 1970, ($790,000) are being amortized on a straight-line basis over forty years in accordance with Accounting Principles Board Opinion #17.

Deferred Compensation

Truck Lines has deferred compensation agreements with certain of its officers which provide for payments after termination of employment if the conditions of the agreements are met. The Company is providing for the related costs over the officers' anticipated period of service. The provision for deferred compensation for the years ending December 30, 1978, and December 31, 1977, was $77,000 and $187,000, respectively.

(continued)

Claims and Insurance Accruals

Claims and insurance accruals represent the estimated uninsured cost of claims for cargo loss and damage, worker's compensation, bodily injury and property damage. These costs are accrued based upon reported claims and historical experience. The portion of these accruals which is not expected to be paid within one year is classified as a long-term liability.

Earned Revenue

Revenues from common carrier operations are recognized on the date freight is picked up from the shipper. The related expense is recognized as incurred.

Fiscal Year

The companies maintain their annual financial records on the basis of a 52 or 53 week period ending on the Saturday nearest to December 31.

T.I.M.E.--DC, INC.

Note A--Accounting Principles And Policies:

The consolidated financial statements include the accounts of the Company and its subsidiaries. The Company's 50% investment in United Terminals, Ltd. (a Canadian affiliate) is carried at cost, plus equity in undistributed earnings since acquisition. Intercompany accounts and transactions have been eliminated. Certain reclassifications have been made in the 1977 Consolidated Statement of Earnings to conform to the classifications used in 1978.

The Company's significant accounting principles and policies are as follows:

> Operating revenues are recognized at the time the shipment is received from the customer.
>
> Tires on equipment in service are recorded at approximately 50% of acquisition cost.
>
> Property held for sale is stated at the lower of acquisition cost, less accumulated depreciation, or estimated aggregate net realizable value.

Property and equipment are recorded at acquisition cost. Additions are charged to property accounts, while replacements, maintenance and repairs (which do not improve or extend the life of the respective asset) are expensed in the year incurred. When properties are disposed of, the related costs and accumulated depreciation are removed from the respective accounts. Gain or loss on dispositions credited or charged to earnings. Depreciation is recorded on the straight-line method over the estimated useful lives of the assets as follows:

Buildings	33-1/3 years
Transportation equipment	5 - 7 years
Other property and equipment	8 - 10 years

Substantially all operating rights and intangibles were acquired prior to October 31, 1970 and are not being amortized since, in the opinion of management, there has been no diminuation in the value.

The Company's estimated liability for claims and insurance is based upon claims for cargo loss and damage, personal injuries, property damage and freight overcharges on file and unsettled as of year-end and includes an estimate for unreported claims to be filed based primarily on historical experience.

Deferred income taxes arise primarily from the use of accelerated depreciation and timing differences as to the deductibility of certain estimated liabilities for income tax reporting purposes (see Note D).

The Company utilizes the deferred method of accounting for investment tax credits and amortizes such credits into income over the estimated useful lives of the related property.

Net earnings per common and common equivalent share are based on the weighted average number of common shares outstanding after assuming full conversion of convertible preferred stock. The dilutive effect of stock options is not material. Average outstanding shares used in the calculations for 1978 and 1977 totaled 3,349,029 and 3,348,154 shares, respectively.

Section I

Other Noteworthy Disclosures

Leases

FASB Statement No. 13 introduced new accounting rules to be applied to all leases entered into after December 31, 1976, and retroactively to all leases originating prior to that date. A transition period is provided for the retroactive adoption of this Statement. However, if adoption is delayed certain "as if" disclosures relating to pre-1977 leases are required. Examples of disclosures in survey companies' reports are included herein. Also see Section D for a description of FASB Statements No. 26, 27, 28 and 29 and Interpretation No. 27 and their effect on lease transactions and FASB Statement No. 13.

EXAMPLE Disclosure of "as if" Information

COASTAL INDUSTRIES, INC.
(Notes to Financial Statements)

Note 1--Leases

The Corporation is committed under various lease agreements relating to land, buildings, tires and other equipment for periods ranging from 2 to 20 years.

Rentals under these agreements are for a fixed amount over a period of time, except rentals under the tire lease are based on usage. The Corporation has the option to renew certain of these leases upon the expiration of present commitments for periods ranging from 1 to 50 years. The Corporation also has options to purchase certain leased assets at prices approximating fair market value at option dates.

Effective January 1, 1977, the Corporation changed its method of accounting for leases as required by Financial Accounting Standards Board Statement No. 13. All leases entered into since that date which were determined to be capital leases have been recorded as assets at the lower of fair market value or the present value of future lease commitments with a corresponding amount recorded as a liability.

Carrier operating property at September 30, 1978 includes the following amounts related to leases capitalized subsequent to December 31, 1976:

Revenue equipment	$148,521
Other equipment	3,822
Less allowances for amortization	(49,636)
	$102,707

Future minimum payments, by year and in the aggregate, for all noncancellable leases with initial or remaining terms of one year or more consisted of the following at September 30, 1978:

	Capital Leases	Operating Leases
1979	$ 50,748	$1,139,863
1980	38,144	280,708
1981	27,780	96,622
1982	17,832	55,386
1983	-0-	50,036
Thereafter	-0-	529,970
Total minimum lease payments	134,504	$2,152,585
Amounts representing interest	28,925	
Present value of net minimum lease payments	$105,579	

Total rental expense for all operating leases amounted to:

	1978	1977
Minimum rentals	$ 823,778	$ 751,758
Contingent rentals	1,045,674	337,427
	$1,869,452	$1,089,185

The Corporation presently accounts for leases entered into prior to January 1, 1977 in accordance with generally accepted accounting principles established prior to the issuance of Financial Accounting Standards Board Statement No. 13. The Corporation will have to restate its financial statements in the year 1979 to reflect the accounting for these leases in accordance with the Statement. This change in accounting principles will result in certain leases being capitalized with an increase (decrease) in the amounts reflected in the Corporation's financial statements as follows:

(continued)

	1978	1977
Capital lease assets:		
Prepaid tires	$842,655	$736,850
Carrier operating property	567,749	784,004
Capital lease obligations:		
Accounts payable tires	858,479	749,783
Current lease obligations	120,519	153,945
Non-current lease obligations	527,363	724,810
Net income	6,098	(9,506)
Earnings per share	.01	(.01)

EXAMPLE Retroactive restatement in accordance with FASB 13

COOPER--JARRETT

(Notes to Financial Statements)

5. Leased Assets And Lease Commitments

In 1978, the Company adopted the method of accounting for pre-1977 leases required by the Financial Accounting Standards Board and applied it retroactively to the consolidated financial statements for 1977 and 1976.

The standard defines two types of leases: capital and operating. A capital lease transfers substantially all of the benefits and risks of ownership of the leased property to the Company. The Company therefore accounts for it as an asset financed by a related debt obligation. Operating leases are accounted for as operating expenses. Under the previous method, essentially all pre-1977 leases were accounted for as operating leases.

The Company's capital leases consist primarily of three terminals and certain revenue equipment. As a result of the new accounting method, capital leases are reflected on the Company's consolidated balance sheet as follows:

	December 30, 1978	December 31, 1977
Buildings	$ 784,813	$ 784,813
Revenue equipment	4,008,304	4,807,592
	4,793,117	5,592,405
Accumulated depreciation	(2,024,364)	(2,593,290)
Net leased assets under capital leases	$ 2,768,753	$ 2,999,115
Current lease obligations	$ 632,852	$ 547,703
Long-term lease obligations	2,483,158	2,745,974
Total lease obligations	$ 3,116,010	$ 3,293,677

In addition, retained earnings at December 31, 1977, were decreased by $139,090. This decrease represents the cumulative effect as of January 1, 1977 of adopting this new method amounting to $126,230 ($.17 per share) net of tax of $116,500, and the effect of the accounting change on 1977 net earnings as restated amounting to $12,860 ($.02 per share). For the year ended December 31, 1977, the effect of this change in method produced an increase in depreciation expense ($431,451) and interest expense ($176,870) offset by a decrease in equipment and terminal rents ($583,561) and deferred tax expense ($11,900). The effects of the change on the year ended December 30, 1978 did not vary significantly from the prior year.

At December 30, 1978, minimum rental payments due under all leases are as follows:

	Capital Leases	Operating Leases
1979	$ 886,170	$ 950,000
1980	790,830	581,000
1981	598,420	528,000
1982	435,930	471,000
1983	404,850	460,000
Later Years	921,480	906,000
Total minimum lease payments (a)	$4,037,680	$3,896,000
Imputed interest	(921,670)	
Present value of net minimum lease payments	$3,116,010	

(a) Minimum lease payments for operating leases do not include contingent rentals that may be paid under certain leases.

Total rental expense for the years ended December 30, 1978 and December 31, 1977 was as follows:

	1978	1977
Operating leases:		
Minimum rentals	$1,621,706	$1,558,672
Contingent rentals	150,291	215,414
Sublease rentals	(47,133)	(37,500)
	$1,724,864	$1,736,586

Contingent rentals are determined on the basis of mileage for revenue equipment.

Most of the Company's leases provide that the Company pay taxes, maintenance, insurance, and certain other operating expenses applicable to the leased assets.

Management expects that in the normal course of business, leases that expire will be renewed or replaced by other leases. Certain leases may be terminated at any time through the purchase of the related equipment.

Reporting for Segments of a Business Enterprise

FASB Statement No. 14, effective for fiscal years beginning after December 15, 1976, applies to all publicly held "business enterprises" and requires those doing business in more than one industry to report revenue, income, and asset data about each significant industry segment. Companies also have to report on their foreign operations, export sales, and their dependence on one or a few major customers. The information is part of the financial statements or the footnotes thereto. The impact of this statement on survey companies was limited. Companies having significant non-carrier operations generally disclosed data about industry segments while other survey companies generally considered themselves to be in one industry. Examples of the various disclosures noted is provided below.

EXAMPLES Disclosure of business segment information

MIDWESTERN DISTRIBUTION, INC.
(Note to Financial Statements)

J. Summary of Company Segment Information:

The Company operates principally in two segments, freight distribution and equipment sales and service. Freight distribution involves services provided as a motor common carrier of specified commodities operating under authority granted by the Interstate Commerce Commission. As an integral part of the freight distribution process, the Company utilized independent contractors to conduct its line haul operations. The Company has developed a program to finance tractor purchases and maintenance support for these contractors. Accordingly, included within the freight distribution segment are those costs and revenues associated with the above described financing.

The Company maintains a subsidiary, B&D Motor Parts, Inc., which sells to the independent contractors power equipment, tires, parts and service. Additionally, the subsidiary maintains all Company-owned freight distribution equipment.

Operating profit is defined as total revenue less operating expenses. In computing operating profit, general corporate expenses were not specifically allocated to any segment and, accordingly, appear as a separate item in the reconciliation of operating profit to earnings before income taxes. Interest expense, all of which is directly related to financing of revenue equipment (trailers) and contractor receivables, is included in the freight distribution segment.

Identifiable assets by segment are those assets that are used in the Company's two respective segments. Corporate assets are principally cash.

	Year Ended December 31, 1978			
	Freight Distribution	Equipment sales & service	Eliminations	Consolidated
Sales and operating revenues	$59,491,345	$12,952,525	$	$72,443,870
Intersegment sales		2,061,961	2,061,961	
Total Sales and operating revenues	$59,491,345	$15,014,486	$2,061,961	$72,443,870
Operating profit	$ 3,679,578	$ 830,286	$	$ 4,509,864
General corporate expense				392,409
Earnings before income taxes				$ 4,117,455
Identifiable assets at 12/31/78	$33,560,412	$ 3,556,628	$1,717,764	35,399,276
Corporate assets				1,904,410
Consolidated assets				$37,303,686
Capital expenditures	$ 2,957,173	$ 190,118	$	$ 3,147,291
Depreciation	$ 526,193	$ 28,431	$	$ 554,624
Amortization of operating authorities	$ 31,200	$	$	$ 31,200

(continued)

	Year ended December 31, 1977			
	Freight Distribution	Equipment sales & service	Eliminations	Consolidated
Sales and operating revenues	$47,261,435	$ 9,497,234	$	$56,758,669
Intersegment sales		1,411,234	1,411,234	
Total sales and operating revenues	$47,261,435	$10,908,468	$1,411,234	$56,758,669
Operating profit	$ 4,292,316	$ 728,237	$	5,020,553
General corporate expense				428,012
Earnings before income taxes				$ 4,592,541
Identifiable assets at 12/31/78	$25,248,327	$ 3,218,584	$1,358,906	$27,108,005
Corporate assets				5,445,523
Consolidated assets				$32,553,528
Capital expenditures	$ 1,970,855	$ 155,675	$	$ 2,126,530
Depreciation	$ 547,979	$ 24,505	$	$ 572,484
Amortization of operating authorities	$ 21,000	$	$	$ 21,000

ALLIED VAN LINES, INC.
(Notes to Financial Statements)

Note 9: Results by Business Segments: The Company operates principally as a motor carrier of household goods, as a domestic and international freight forwarder of household goods and general commodities, and as an administrator for its agents in vehicle distribution. Other business operations of the Company consist primarily of services provided to agents such as insurance brokerage and data processing. Those lines of business which contributed 10% or more of revenues, operating profit or identifiable assets (in thousands) for the years ended December 31, 1978 and 1977 are presented below:

1978	Motor Carrier Operations	Freight Forwarding Operations	Vehicle Distribution	Other Business Operations	Consolidated
Revenues	$328,784	$30,086	$1,684	$3,715	$364,269
Operating profit (loss)	$ 5,862	$(1,077)	$ 937	$ 901	$ 6,623
Non-allocated expenses:					
Corporate service and administrative					6,651
Interest, net					697
Loss before income taxes					$ (725)
Identifiable assets at December 31, 1978	$ 38,145	$ 8,937	$2,973	$1,308	$ 51,363
Corporate assets					8,953
Total assets at December 31, 1978					$ 60,316
Depreciation expense	$ 619	$ 117	$ 511	$ 2	
Capital expenditures	$ 2,479	$ 206	$2,313	$ 34	
1977					
Revenues	$297,330	$24,481	$1,297	$1,565	$324,673
Operating profit	$ 6,957	$ 702	$ 672	$ 265	$ 8,596
Non-allocated expenses:					
Corporate service and administrative					5,354
Interest, net					271
Income before income taxes					$ 2,971
Identifiable assets at December 31, 1977	$29,662	$ 6,626	$3,323	$1,020	$40,631
Corporate assets					7,937
Total assets at December 31, 1977					$48,568
Depreciation expense	$ 273	$ 93	$ 441	$ -	
Capital expenditures	$ 2,805	$ 153	$3,862	$ -	

Operating profit represents transportation revenue less related purchased transportation and operating expenses and direct administrative support costs.

Allied Van Lines International GmbH, a wholly owned West German subsidiary, provides services as a freight forwarder of household goods and general commodities and its revenues, operating profit and assets are included in the above data. Separate information for the subsidiary is not presented because its revenues, operating profit and assets are not material to related consolidated amounts.

CONSOLIDATED FREIGHTWAYS, INC.

(Notes to Financial Statements)

10. Industry Group Analysis

The operations of the Company and its subsidiaries, which are conducted in the United States and Canada, encompass principally three industries: motor carrier, manufacturing and air freight forwarding. The business activities of these groups are fully described elsewhere in this Annual Report. The Canadian subsidiaries account for less than 10% of consolidated revenues and total assets. Export sales of United States subsidiaries are not material.

Sales from Freightliner Corporation to White Motor Corporation were $62,047,000 in 1978 and $294,809,000 in 1977 (including sales in Canada of $36,383,000 and $27,713,000, respectively). Termination of the purchase agreement with White Motor Corporation, applicable to the marketing of Freightliner products in the United States, became effective December 8, 1977. Notification of the termination of a similar agreement applicable to the marketing of Freightliner products in Canada was given to White on January 4, 1978. The conditions of this termination provide for a two-year transition period.

Following is an analysis by industry group of revenues, income before income taxes, depreciation and amortization and capital expenditures for the years ended December 31, 1978 and 1977, and identifiable assets as of those dates. Income before income taxes is net of general corporate expenses, which have been allocated to subsidiaries on a revenue and capital basis. Intergroup sales have been recorded in the same manner as sales to unaffiliated customers and have been eliminated in consolidation. The identifiable assets of the Company consist principally of cash, marketable securities, and investment in Freightliner Credit Corporation.

					Industry Group					
(In thousands)	Consolidated		Adjustments Eliminations and the Company		Motor Carrier		Manufacturing		Air Freight Forwarding	
Years ended December 31	1978	1977	1978	1977	1978	1977	1978	1977	1978	1977
Revenues										
Sales to unaffiliated customers	$1,386,131	$1,103,037	$ -	$ -	$805,897	$653,358	$538,299	$420,788	$41,935	$28,891
Intergroup sales	-	-	(33,178)	(21,987)	-	-	33,178	21,987	-	-
Total revenues	$1,386,131	$1,103,037	$(33,178)	$(21,987)	$805,897	$653,358	$571,477	$442,775	$41,935	$28,891
Income before Income Taxes										
Earnings from operations	$117,135	$ 98,829	$(2,084)	$(1,157)	$ 86,581	$ 69,623	$ 28,913	$ 28,595	$3,725	$1,768
Other income (expense)	(3,935)	(984)								
Income before income taxes	$113,200	$ 97,845								
Depreciation and Amortization	$ 36,923	$ 28,770	$ (895)	$ (598)	$ 32,834	$ 25,331	$ 4,581	$ 3,720	$ 403	$ 317
Capital Expenditures	$ 99,891	$ 66,316	$(2,809)	$(1,508)	$ 77,787	$ 60,194	$ 24,172	$ 7,446	$ 741	$ 184
As of December 31										
Identifiable Assets	$623,996	$506,674	$43,534	$34,121	$384,788	$314,098	$186,348	$151,494	$9,326	$6,961

Transactions with Affiliates and Related Parties

Statement on Auditing Standards (SAS) No. 6 requires financial statement disclosure regarding related party transactions, which are material individually or in the aggregate. Examples of such disclosures noted in the survey companies' reports are provided below.

EXAMPLES Related party transaction disclosures

DELTA CALIFORNIA INDUSTRIES
(Notes to Financial Statements)

H. Transactions with affiliates

During 1975 the Company purchased certain revenue equipment from a partnership comprised of a group of the Company's principal shareholders for $63,000 cash and a $187,000 long-term subordinated note payable. The purchase price was based on independent appraisals. Prior to the purchase the equipment had been leased from the partnership at a nominal rental. Rents paid to affiliated partnerships for real property and equipment are shown in Note 1.

WILSON FREIGHT COMPANY
(Notes to Financial Statements)

Note 1--Related Party Transactions

The Company and certain other entities constitute related parties by reason of common ownership and/or control by members of management, directors, and their immediate families. During 1978 and 1977, transactions between these related parties consisted of the leasing of certain properties by the Company, and these transactions will continue (See Note F). In addition, during 1978, the Company sold for $350,000 one of its terminal facilities to a joint venture controlled by related parties. A gain of $267,632 resulting from this transaction is included in the results of operations for the current fiscal year. At December 30, 1978, there were no material amounts owing to these related parties.

Intercompany transactions with Strickland have no effect on the net loss for 1978.

Operation of Company under Temporary Authority

EXAMPLES Disclosures of temporary authority operation of a company

THE BEKINS COMPANY
(Notes to Financial Statements)

Note B--Acquisitions

During 1977 the Company acquired ACE Pest and Termite Control Companies, and Data Transportation Company, for cash and notes aggregating $4,530,000. The primary activities of these companies are pest and termite control services, and the transportation and warehousing of specialty electronic equipment, respectively. During 1978 the Company received final approval from the ICC for the acquisition of Surefine Transportation Company for cash of $315,000. The primary activity of this business is transporting new furniture and fixtures from the manufacturer to retail outlets in 15 western states. These transactions have been accounted for as purchases and accordingly, the acquired companies' results of operations (not material in amount) from the dates of acquisition have been included in the consolidated financial statements. Goodwill arising from these transactions is being amortized on the straight-line method over 40 years.

During 1978 the Company also agreed to purchase for $970,000 certain portions of ICC operating rights from Sternberger Motor Corporation subject to final approval by the ICC. These operating rights relate to transporting new furniture and fixtures from the manufacturer to retail outlets in 23 eastern states. The Company has been operating these rights under temporary authority and the results of these operations (not material in amount) from the date temporary authority was granted have been included in the consolidated financial statements.

PENN YAN EXPRESS, INC.
(Notes to Financial Statements)

9. Other Matters

Pending Acquisitions

In December 1978, the Company entered into an agreement to purchase the operating rights of B&P Motor Express, Inc. The agreement is subject to the Company obtaining permanent operating authority. Subsequent to December 30, 1978, the Company was granted temporary operating authority. The total purchase price of the rights per terms of the agreement is $350,000 of which the Company deposited $35,000 prior to year end.

Acquisitions

EXAMPLES Disclosure of acquisitions

McLEAN TRUCKING COMPANY
(Notes to Financial Statements)

Note 11--Acquisitions:

Effective October 1, 1977, the Company acquired all the outstanding stock of Wolverine Express, Inc. and Interlake Equipment Corporation for $3,750,000 cash. Effective May 1, 1978, the Company acquired all the outstanding stock of Crescent Motor Lines for approximately $1,000,000 cash, subject to certain adjustments. These transactions have been treated for accounting purposes as purchases. Accordingly, the consolidated financial statements include the operations of the acquired companies from the respective dates of acquisition. The operating results of the acquired companies prior to the dates of acquisition would have an insignificant effect on the Company's 1977 and 1978 results of operations. Assets acquired and liabilities assumed from the acquisitions are as follows:

	Wolverine Express, Inc. and Interlake Equipment Corporation	Crescent Motor Lines	Total
Tangible property	$3,204,950	$ 61,511	$3,266,461
Operating authority	1,897,180	744,632	2,641,812
Other assets	20,570	-	20,570
Long-term debt	(1,227,646)	(3,299)	(1,230,945)
Deferred income taxes	(65,100)	-	(65,100)
Working capital	(79,954)	197,156	117,202
	$3,750,000	$1,000,000	$4,750,000

LEASEWAY TRANSPORTATION CORP.
(Notes to Financial Statements)

8. Acquisitions

In 1978 the Company acquired two vehicle leasing companies for cash of $2,475,000. Operations of these purchased companies have been included in the statement of consolidated earnings from the dates of acquisition. Operations of these companies prior to acquisition were not material in relation to the consolidated amounts.

In January 1977 the Company acquired a regulated carrier operating in Canada and related carrier assets for cash of $500,000. Operations of this purchased company have been included in the statements of consolidated earnings from the date of acquisition. In December 1977 the Company exchanged 65,000 shares of its common stock for all the outstanding shares of two regulated carriers and an affiliated leasing company. This transaction was accounted for as a pooling of interests and, accordingly, the statement of consolidated earnings for 1977 includes the results of operations of the pooled companies for the entire year.

Discontinued Operations

The reports that included reference to discontinued operations followed the requirements of APB Opinion No. 30. Income or loss from discontinued operations was shown in a section on the income statement below earnings from continuing operations with a reference to the footnotes to the financial statements.

EXAMPLES Disclosures related to discontinued operations

RLC CORP.
(Accounting Policies Footnote)

The consolidated financial statements include the accounts of all subsidiaries other than discontinued operations with appropriate elimination of intercompany transactions and balances. Discontinued operations include: Brandywine Sports, Inc. on October 31, 1977 to RLC CORP. common shareholders of record at the close of business October 21, 1977, on the basis of one share of Brandywine Sports, Inc. common stock for each five shares of RLC common stock; and the engineering services business, which was sold for $5,250,000 of cash as of July 1, 1978. The 1977 Statement of Earnings has been restated to reflect the engineering services business as a discontinued operation.

Stock Options

Accounting Research Bulletin No. 43, Chapter 13, and APB Opinion No. 25 require the disclosure of the status of any stock option plans at the balance-sheet date and disclosure of any activity during the period.

EXAMPLES Stock option disclosure

WILSON FREIGHT COMPANY
(Accounting Policies Footnote)

Stock Option Plan: Proceeds from the sale of common stock which may be issued under options will be credited to capital accounts at the time of exercise. No charge will be made to earnings with respect to options under the plan.

McLEAN TRUCKING COMPANY
(Notes to Financial Statements)

Note 6--Shareholders' Equity: Under the Company's Key Employees Qualified Stock Option Plan of 1972, 250,000 shares of common stock were reserved for issuance to key employees. The exercise price is equal to the fair market value of the shares on the day the options are granted. The term of the options is five years from the date of grant, and the plan terminates ten years from its adoption. Transactions relating to stock options during 1978 and 1977 were as follows:

	Number of Shares		Average Option Price Per Share	
	1978	1977	1978	1977
Under option at beginning of year	196,038	227,928	$19.68	$18.67
Granted	3,000	15,200	18.81	24.93
Exercised	(6,204)	(38,942)	15.99	15,92
Expired or terminated	(17,706)	(8,148)	18.59	19.27
Under option at end of year	175,128	196,038	19.91	19.68
Available for future options at end of year	23,280	8,574		
Exercisable at end of year	158,228	135,641		

Options exercised during the year resulted in increases in common stock and additional capital of $3,102 and $96,097, respectively.

Net income per share is based on the weighted average number of shares outstanding during the periods. Outstanding stock options do not have a material effect on net income per share.

Subsequent Events

FASB Statement No. 5 and SAS No. 1, Section 560.06 require the disclosure of any events subsequent to the balance-sheet date which would make the financial statements misleading if not disclosed. Such events would include, but are not limited to, the following: Sale of a bond or capital stock issue, acquisition of a business, litigation arising against the Company, catastrophe losses and losses on receivables resulting from conditions arising after the balance-sheet date. Examples of subsequent events disclosed by the survey companies in their audited financial statements are shown below.

EXAMPLES Disclosures of subsequent events

F-B TRUCK LINE COMPANY

(Notes to Financial Statements)

12. SUBSEQUENT EVENT

On February 20, 1979, the Interstate Commerce Commission gave final approval for the merger between Eagle Motor Lines, Inc. and F-B Truck Line Company and subsidiaries. The merger has been approved by the stockholders of both companies.

The original merger agreement was signed on February 16, 1978, and under the terms of the agreement, all stockholders of the Company would receive a cash payment of $14 per share of common stock plus or minus an amount equal to the net earnings or loss per share of the Company from January 1, 1978 to the valuation date.

Consummation of the merger is subject only to Eagle Motor Lines, Inc.'s ability to obtain financing.

COASTAL INDUSTRIES, INC.
(Notes to Financial Statements)

Note L--Subsequent Event

On October 31, 1978, the Corporation entered into an agreement to sell certain operating authority for $650,000. This transaction is expected to result in an insignificant gain or loss and is subject to the approval of the Interstate Commerce Commission.

ICC Regulations Violations

EXAMPLES Contingency disclosure related to alleged violation of Interstate Commerce Act

GATEWAY TRANSPORTATION CO., INC.
(Notes to Financial Statements)

(4) Legal Proceedings

In November, 1977, the Interstate Commerce Commission (ICC) filed a complaint in a United States District Court against the company alleging that during the preceding three years the company had improperly retained duplicate payments made by users of the company's transportation services.

In February, 1978, the District Court approved a settlement agreement between the company and the ICC. The settlement provided that the company notify the remitter of all apparent duplicate or over-payments received by the company after September 26, 1975, and request the remitter to furnish additional data within 90 days of the receipt of such notice to enable the company to identify the unpaid freight bill to which the remittance applies or to make a refund. The settlement further provided that if after following the above procedures the company was unable to apply such remittance to one or more specific freight bills, the unapplied amount could be retained as income. In 1978 the Company adopted procedures substantially the same as those discussed above for processing possible duplicate or overpayments on a current basis.

The company recorded an estimated liability of $200,000 at December 31, 1977, for possible refunds under the terms of the settlement. This amount was reflected as a reduction of operating revenue in the accompanying statement of operations for the year ended December 31, 1977.

During 1978 the company made refunds totaling approximately $580,000 related to the settlement agreement as approved by the District Court. The excess of the refunds over the $200,000 estimated liability recorded at December 31, 1977, has been reflected as a reduction of operating revenue in the accompanying consolidated statement of operations for the year ended December 31, 1978, as required by generally accepted accounting principles.

The company is also a defendant in certain employment related and other actions. Although the outcome of these actions cannot be determined at the present time, management believes these matters can be successfully defended or resolved without material adverse effect on the accompanying financial statements.

ALLIED VAN LINES, INC.
(Notes to Financial Statements)

Note 8: Legal Matters

In July, 1974, a civil class action was filed in the United States District Court for the Northern District of Illinois against the Company, certain of its present and former officers and directors, and its independent accountants, alleging essentially that the plaintiff and other Class B Stockholders suffered monetary damages as a result of their lack of knowledge of a restriction on the payment of dividends. The dividend restriction was eliminated by the Interstate Commerce Commission on June 28, 1974, prior to the commencement of this action. On December 15, 1978, the Federal District Court approved a settlement offer agreed upon between the Company and the Plaintiff on his behalf and on behalf of the class he represents. A provision of $300,000 for the estimated settlement and expenses of this litigation was charged in 1978. Our independent accountants, co-defendants in this litigation, have declined to participate in the settlement and will continue their independent defenses without participation by the Company.

On December 28, 1978, the Interstate Commerce Commission (I.C.C.) notified the Company that civil forfeiture claims are being made against the Company due to alleged violations of administrative matters related to household good shipments. The Company has a potential maximum liability of $807,500 under provisions of the Interstate Commerce Act. The alleged violations are subject to negotiation and/or litigation prior to final settlement. The notification by the I.C.C. invited the Company to informally negotiate a settlement. The Company has recently received the context of the alleged violations and is of the opinion that the maximum liability, if any, is substantially less than the amount claimed. The Company is indemnified by its agents against any liability arising from such claims and, accordingly, the action will not have a material impact on the financial statements of the Company. Moreover, the Company believes it has meritorious defenses to the alleged violations, and intends to pursue these defenses vigorously.

REPUBLIC VAN LINES, INC.
(Notes to Financial Statements)

(12) Contingent Liabilities

Two subsidiary companies were former member carriers of Transport Clearings of Los Angeles which is a defendant in two class action suits. The amounts claimed are substantial and the plaintiffs seek to obtain judgments against each of the member carriers, as well as against Transport Clearings of Los Angeles. In addition, the Interstate Commerce Commission has made a substantial civil forfeiture demand of the Company and numerous other household goods carriers for alleged failure to comply with certain household goods carrier regulations. Although the ultimate resolution of these matters is indeterminable at this time, management is of the opinion that they will not have a material adverse effect on the Company's financial position.

At December 31, 1978, the Company is contingently liable as a guarantor of obligations of certain agents of the Company amounting to approximately $620,000. The Company's guaranteeing this indebtedness is one of the violations of the loan agreement with the bank described in note 6.

Pensions and Related Disclosures

In compliance with APB Opinion No. 8 the financial statements should disclose (1) the existence of such plan, (2) the Company's accounting and funding policies, (3) the provision for costs for the period, (4) amount, if any, of the excess of vested benefits over the total net pension fund assets, and (5) the nature and effect of significant matters affecting comparability for all periods presented.

EXAMPLES Pension disclosure

U.S. TRUCK LINES, INC. OF DELAWARE
(Notes to Financial Statements)

2. Pension Plans:

In accordance with collective bargaining agreements, certain subsidiaries are required to make contributions at specified rates to Pension Trusts to provide pensions for employees under industrywide pension plans. For 1978 and 1977, the amounts of pension plan expenses for employees covered by collective bargaining agreements aggregated $3,471,718 and $3,227,042, respectively.

In addition, the Company and its subsidiaries have pension plans covering substantially all salaried employees. The policy of the Company is to fund pension costs accrued. The principal plan is financed by payments made annually to a trustee for the purchase of insurance contracts for the participants. For 1978 and 1977, the amounts of pension plan expense covering salaried employees were $945,323 and $887,305, respectively. There are no vested benefits in excess of accrued cash value of contracts purchased under the terms of the plan.

LEASEWAY TRANSPORTATION CORP.
(Notes to Financial Statements)

11. Pension Plan

The Company has a pension plan for non-union employees. Pension expense for the Company-sponsored plan for 1978 was $1,960,000 and for 1977 was $1,755,000. Effective January 1, 1977, certain actuarial assumptions were changed to more accurately reflect current conditions which decreased annual pension costs. Also, the period of amortization of prior service costs was decreased from 40 years to 30 years which increased annual pension costs. The net effect of these changes reduced pension costs for 1977 by approximately $260,000. The Company's policy is to fund pension costs accrued. At January 1, 1978, the date of the latest actuarial valuation, unfunded prior service costs were $5,432,000 and pension fund assets exceeded the actuarially computed value of vested benefits. Union employees are covered under union pension agreements.

RLC Corp.
(Notes to Financial Statement)

Pension Plan

The Company maintains a non-contributory pension plan for full-time employees not covered by pension plans established under collective bargaining agreements. The cost to the continuing operations of the Company was approximately $412,000 in 1978 and $379,000 in 1977. The amount of unfunded past service liability at September 30, 1978 is approximately $1,459,000. The actuarially computed value of the vested benefits exceeded pension fund assets by approximately $922,000.

Reporting of Quarterly Results

Many SEC-registered companies are required to include a footnote in their annual report summarizing their quarterly operating results for the two latest years.

The footnote to the annual financial statements must include, among other things, summarized quarterly revenue, gross profit, income, and income per share data for the last two years. This footnote may be marked "unaudited" but certain review procedures must be performed by the company's independent auditors. Companies affected by the annual footnote requirement are generally those listed on national stock exchanges and actively traded OTC companies. The footnote may be omitted if total assets at the latest fiscal year end were less than $200 million and income before extraordinary items for at least one of the last three years was less than $250,000.

EXAMPLES **Disclosure of quarterly financial data**

PEPSICO, INC.
(Notes to Financial Statements)

Note 11/Quarterly financial data (unaudited): Summarized quarterly financial data (in thousands of dollars except for per share amounts) for 1978 and 1977 are as follows:

	1978 Quarters Ended				
	March 25 (12 Weeks)	June 17 (12 Weeks)	Sept. 9 (12 Weeks)	Dec. 30 (16 Weeks)	Total
Net sales and other operating revenues	$833,787	$1,023,041	$1,098,128	$1,345,050	$4,300,006
Gross profit	415,403	499,372	532,271	628,461	2,075,507
Net income	37,044	59,801	69,120	59,804	225,769
Net income per share	.40	.65	.74	.64	2.43

	1977 Quarters Ended				
	March 19 (12 Weeks)	June 11 (12 Weeks)	Sept. 3 (12 Weeks)	Dec. 31 (17 Weeks)	Total
Net sales and other operating revenues	$690,738	$856,735	$938,555	$1,163,263	$3,649,291
Gross profit	336,497	416,187	457,867	556,998	1,767,549
Net income	32,346	51,544	60,193	52,658	196,741
Net income per share	.35	.56	.66	.57	2.14

As a result of the merger of PepsiCo and Taco Bell (see Note 2) revenues, net income, and net income per share previously reported were adjusted as follows (in thousands of dollars except for per share amounts):

(continued)

	Adjustments to Quarters Ended in				1977
	March	June	Sept.	Dec.	Total
Net sales and other operating revenues					
1978	$15,681	$33,294	$ -	$ -	$ -
1977	12,944	24,590	28,928	37,115	103,577
Net income					
1978	708	2,492	-	-	-
1977	956	2,283	3,007	3,156	9,402
Net income per share					
1978	(.02)	-	-	-	-
1977	(.01)	-	-	-	(.01)

YELLOW FREIGHT SYSTEM, INC.
(Notes to Financial Statements)

NOTE 9--Quarterly Financial Summary (Unaudited): The following is a summary of quarterly financial data for the years 1978 and 1977:

	(In Thousands Except Earnings Per Share)			
1978	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	$176,118	$201,223	$200,579	$202,866
Income from operations	13,967	20,389	23,554	19,556
Income before taxes	12,854	19,427	22,061	18,713
Net income	6,873	10,241	11,616	10,295
Earnings per share	.48	.72	.81	.72
1977				
Revenues	$142,153	$163,484	$167,596	$174,632
Income from operations	16,620	19,095	19,421	20,395
Income before taxes	16,085	18,141	18,277	19,647
Net income	8,294	9,402	9,561	10,368
Earnings per share	.58	.66	.67	.72

ARKANSAS BEST CORPORATION
(Notes to Financial Statements)

Note L--Quarterly Results of Operations (Unaudited): The table below presents unaudited quarterly financial information for 1978 and 1977.

	1978			
	Three Months Ended			
	March 31	June 30	September 30	December 31
Operating revenues	$45,356,226	$52,707,752	$53,812,928	$53,603,048
Operating expenses and costs	(42,971,079)	(47,597,853)	(49,329,458)	(48,904,365)
Operating income	2,385,147	5,109,899	4,483,470	4,698,683
Other income (expense)	(548,066)	621,181	(320,078)	(694,159)
Income taxes	(875,359)	(2,721,544)	(1,690,975)	(1,493,698)
Net income	$ 961,722	$ 3,009,536	$ 2,472,417	$ 2,510,826
Income per common share	$.25	$.79	$.64	$.66

	1977			
	Three Months Ended			
	March 31	June 30	September 30	December 31
Operating revenues	$38,132,759	$42,249,880	$43,744,387	$45,129,235
Operating expenses and costs	(35,375,613)	(38,388,512)	(39,599,046)	(40,979,247)
Operating income	2,757,146	3,861,368	4,145,341	4,149,988
Other expense	(166,154)	(127,985)	(490,143)	(820,150)
Income taxes	(1,245,732)	(1,811,409)	(1,455,874)	(1,396,751)
Net income	$ 1,345,260	$ 1,921,974	$ 2,199,324	$ 1,933,087
Income per common share	$.36	$.51	$.58	$.51

Income tax credits were recorded in the third quarter and fourth quarter of 1978 because investment tax credits exceeded amounts estimated in determining the effective tax rate for the previous quarters. This adjustment increased net income per common share by $.08 and $.10 for the third and fourth quarters, respectively.

Income tax credits were recorded in the third quarter of 1977 because of over provisions of prior year's state income taxes and in the fourth quarter of 1977 because investment tax credits for the year exceeded amounts previously estimated. These adjustments increased income per common share by $.10 and $.04 for the third and fourth quarters, respectively.

Replacement Cost Disclosures (ASR No. 190)

These disclosures apply to all SEC registrants whose total inventories and gross property, plant and equipment are in excess of $100 million and are more than 10% of total assets at the beginning of the most recent fiscal year.

The following data is required in an unaudited note to financial statements or as a separate section of the financial statements following the notes:

1. The current replacement cost of inventories at each year-end for which a balance sheet is required to be filed.

2. Approximate cost of sales for the two most recent fiscal years as if it had been computed using replacement cost of goods and services at the time sales were made.

3. The estimated current cost of replacing with new assets the productive capacity on hand at each year-end for which a balance sheet is required, together with the depreciated cost of such productive capacity. For this purpose, assets held under financing leases, as they are defined in Rule 3-16(q), shall be included in the computation of productive capacity.

4. The approximate amount of straight-line depreciation, depletion, and amortization for the two most recent fiscal years based upon average replacement cost of productive capacity.

5. A description of methods used in determining the foregoing disclosures plus any other information which management believes is necessary or desirable to either understand the disclosures or the impact of inflation on the registrant's business.

Staff Accounting Bulletin No. 7 issued by the SEC clarified the disclosure by stating that the annual shareholders' report need only include a general description of the impact of changes (exclusive of any specific quantitative data) in the prices of specific goods and services. However, the shareholders' report should include a reference to the Form 10-K replacement cost data. See Section K herein for additional examples and Appendix I for a summary of replacement cost data.

In October, 1979, the SEC issued ASR 271 which rescinds the replacement cost disclosures for fiscal years ending on or after December 25, 1980. In addition, the replacement cost rule has been waived for companies who provide FASB Statement No. 33 current cost disclosures for fiscal years ending prior to that date.

EXAMPLES Disclosure of replacement cost

OVERNITE TRANSPORTATION COMPANY
(Notes to Financial Statements)

8. Replacement cost (unaudited)

The trucking industry is labor intensive, dependent on petroleum products and requires extensive capital outlays for revenue producing equipment and terminal facilities. Inflationary pressures on these items have been extensive; however, the Company has been able to counteract these increases through more efficient operations and higher freight rates.

Replacing the Company's tangible assets with new assets of equivalent operating capabilities at current prices would require greater capital investment than that needed at the time these assets were acquired. Measuring the cumulative impact of inflation over the estimated useful lives of these assets is required by Rule 3-17 of Regulation S-X. The Company's Annual Report Form 10-K filed with Securities and Exchange Commission contains full disclosure of the required data. The following summarizes these disclosures:

(continued)

	December 31, 1978		December 31, 1977	
	Replacement Cost	Historical Cost	Replacement Cost	Historical Cost
Inventories	$ 2,500,000	$ 2,500,000	$ 2,000,000	$ 2,000,000
Operating property (excluding land and construction in progress):				
Revenue equipment	$133,000,000	$ 92,000,000	$110,000,000	$ 74,000,000
Buildings and other equipment	77,000,000	44,000,000	66,000,000	40,000,000
	210,000,000	136,000,000	176,000,000	114,000,000
Less accumulated depreciation	99,000,000	57,000,000	74,000,000	49,000,000
	$111,000,000	$ 79,000,000	$102,000,000	$ 65,000,000
Annual depreciation	$ 16,000,000	$ 11,000,000	$ 14,000,000	$ 9,000,000

Replacement cost data for 61% (60% for 1977) of the tangible assets was determined using the "current pricing" technique, 23% (22% for 1977) using the trending technique and 16% (18% for 1977) using the comparison method. The Company cautions that the above amounts should not be construed to represent the current market values of the Company's tangible assets.

The Company maintains efficient terminal facilities and a modern fleet of revenue equipment through its replacement and maintenance programs. Under these programs it would not be necessary to replace a substantial portion of its tangible assets in any one year; however, if such were done, savings should be realized in maintenance and repair costs and improved utilization of revenue equipment. Forecasting such benefits is difficult and therefore not presented.

McLEAN TRUCKING COMPANY
(Notes to Financial Statements)

Note 9--Replacement Costs (Unaudited):

Replacement of existing tangible property, inventories, and prepaid tires and tubes with new assets of equivalent operating capability would require a greater capital investment than was necessary at the time existing assets were initially acquired, principally because of the cumulative impact of inflation over the lives of these assets.

During recent years the effect of inflation on the Company's operating expenses has generally been greater than corresponding changes in general price levels. The trucking industry is labor intensive and dependent on petroleum products. Both labor and energy have been subject to significant inflationary pressures in recent years. Historically, the Company has been able to counteract cost increases through higher freight rates, selling prices, and efficiency in operations. However, regulatory and competitive conditions can limit the Company's ability to increase freight rates and selling prices.

The Company's Annual Report Form 10-K to the Securities and Exchange Commission contains specific quantitative information with respect to the estimated replacement cost of tangible property, inventories, and prepaid tires and tubes at June 30, 1978 and 1977, and the related estimated effect of such costs on depreciation expense and operating expenses for the years then ended.

Section J

Accountants' Reports

A company's audited financial statements must be accompanied by an "accountants' report" setting forth the general scope of the auditor's examination and the auditor's opinion as to whether the financial statements are presented in accordance with generally accepted accounting principles consistently applied in relation to the preceding reporting period. Financial statements of regulated companies are not exempt from this requirement. Section 544 of SAS No. 1 states, in part, that:

> ". . . The basic postulates and broad principles of accounting comprehended in the term generally accepted accounting principles which pertain to business enterprises in general apply also to companies whose accounting practices are prescribed by governmental regulatory authorities or commissions. . . . When financial statements of a regulated company are prepared in accordance with a basis of accounting prescribed by its supervisory agency or the financial reporting provisions of another agency, the independent auditor may also be requested to report on their fair presentation in conformity with such prescribed basis of accounting in presentations other than filings with the company's regulatory agency. In those circumstances, except when such reporting is recognized as appropriate by an AICPA accounting or audit guide or auditing interpretation, the auditor should use the standard form of report (see section 509.07, Reports on Audited Financial Statements), modified as appropriate (see section 509.15-.17) because of the departures from generally accepted accounting principles, and then, in an additional paragraph to the report, express an opinion on whether the financial statements are presented in conformity with the prescribed basis of accounting."

The accountants' report covered 1978 and 1977 for all survey companies except four. One accountants' report covered 1978 only due to a change in the fiscal year end in 1978, one annual report contained accountants' reports from different accountants for the two years, one accountants report covered a five year period, and one accountants' report covered 1978 only but mentioned that the 1977 statements were audited by other accountants and that their opinion was included in the 1977 annual report. Thirty-seven of the companies received "unqualified opinions" from their auditors and three were qualified subject to the ultimate disposition of an existing contingency while seven were qualified as to changes in accounting methods. Table 32 indicates the type of opinions issued by the auditors of the survey companies.

TABLE 32 ACCOUNTANTS' REPORTS

Types of Opinions	No. of Survey Companies
Unqualified opinions	37
Opinions qualified for:	
Subject to the ultimate disposition of an existing contingency	3
Change in the method of accounting for leases	6
Change in the method of accounting for gains and losses on revenue equipment trade-ins	1*

*One accountants' report was qualified for both the change in accounting for leases and the method of accounting for gains and losses on revenue equipment trade-ins.

EXAMPLE Unqualified opinion

ROADWAY EXPRESS, INC.
(Report of Independent Auditors)

To the Board of Directors
Roadway Express, Inc.
Akron, Ohio

We have examined the consolidated balance sheets of Roadway Express, Inc. and subsidiaries as of December 31, 1978 and 1977, and the related consolidated statements of income and earnings reinvested in the business and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Roadway Express, Inc. and subsidiaries at December 31, 1978 and 1977, and the consolidated results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent bases.

ARKANSAS BEST CORPORATION
(Report of Independent Auditors)

To the Stockholders and Board of Directors
Arkansas Best Corporation
Fort Smith, Arkansas

We have examined the consolidated balance sheets of Arkansas Best Corporation and subsidiaries as of December 31, 1978 and 1977, and the related consolidated statements of income, stockholders' equity and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in Note H to the consolidated financial statements, the Company is a defendant in lawsuits, the outcome of which can not presently be determined.

In our opinion, subject to the effects, if any, on the financial statements of the ultimate resolution of the matters referred to in the preceding paragraph, the financial statements referred to above present fairly the consolidated financial position of Arkansas Best Corporation and subsidiaries at December 31, 1978 and 1977, and the consolidated results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

(Notes to Financial Statements)

Note H--Litigation

In 1973, the Company and certain officers (and past officers) and directors of NBC, two of whom are also the Chairman and President of the Company, were named as defendants in a complaint filed in the U.S. District Court at Dallas by a holder of 13 shares of NBC Common Stock, as alleged class and derivative actions claiming certain violations of the Securities Exchange Act of 1934 in connection with the purchase and sale of NBC securities. In 1974, the complaint was amended alleging in a derivative cause of action (Count II) that defendants were liable for $13,071,905 of loan losses charged off by NBC in 1973 and other unspecified damanges. Various motions have been filed by the defendants and are pending before the Court to dismiss the complaints and denying the allegations of the amended complaint. In 1978, the Court dismissed derivative Count II for lack of jurisdiction and appended Count II to Count VII which involved only the defendant directors; however, counsel for the plaintiff has now filed a fourth amended complaint (without the Court's permission) which would substantially expand and leave intact the original Count II of the amended complaint. The Company's counsel has moved to strike the fourth amended complaint which motion has not been ruled on by the Court. The original plaintiff who acted as his own attorney has withdrawn as counsel and new counsel now represents him and the class which has now been identified and the class members have received notice from the Court which fixed April 23, 1979, as the date by which class members may elect to be included in or excluded from the suit. Counsel for the Company advises that, because the suit is still in such a preliminary stage of discovery, it cannot predict the outcome of this action at this time. Management intends to defend this action vigorously and exert every effort to prevail in the action. No provision has been made in the financial statements for liability, if any, that may result.

ABF is named as defendant with the International Brotherhood of Teamsters (IBT) and various conferences and individuals of IBT in a complaint filed in U.S. District Court at Little Rock by certain ABF road drivers alleging improper representation by IBT and collusion by ABF and IBT to produce a change of operations as a punitive action against the plaintiffs. Plaintiffs seek injunctive relief and damages for alleged lost wages aggregating $1,188,000 as of July 6, 1976, and $33,000 per week thereafter, plus punitive damages of $10,000,000. The Court has ruled that there was no evidence of collusion or conspiracy between ABF and the defendant Unions, but found that the Unions had breached the collective bargaining agreement by not fairly representing the involved drivers, and held ABF, the Central Conference of Teamsters and the Southern Conference of Teamsters jointly and severally liable for damages as may be awarded to the affected drivers. In late 1978, a Master was appointed and has taken evidence of damages; however, he has not yet filed a report and no final appealable judgment has been entered. Therefore, it is impossible at this time for counsel for the Company to predict the ultimate financial impact upon the Company in this matter. Counsel for ABF is of the opinion that whatever judgment is awarded should be appealed and believes that the trial judge's Findings and Conclusions are contrary to the preponderance of the evidence in the record. Counsel for ABF recently filed a motion asking the Court to hold that ABF is not liable to plaintiff for any damages and, in the alternative, to apportion any damages between ABF and the labor defendants. Should the Court sustain this motion, chances for an ultimate outcome favorable to the Company will be greatly enhanced. In Counsel's opinion, the Court's finding of no evidence of collusion on the part of the defendants eliminates any possible liability for punitive damages. No provision has been made in the financial statements for liability, if any, that may result.

In November 1978, suit was filed against Navajo (now part of ABF), and one of its customers by certain owner-operatior drivers formerly employed by Navajo as an alleged class action, concerning alleged conspiracy on the part of Navajo and the customer to charge less than proper rates for certain transcontinental shipments, thereby under compensating the owner-operators (who are paid based on a percentage of revenues). Actual damages and attorney's fees and costs are sought by the plaintiffs, along with punitive damages of $2,000,000. ABF (as successor to Navajo) has answered denying liability on all counts, and also has cross-claimed against the customer, alleging if there is liability to plaintiff, it is that of the customer, and alternatively, that if the customer was undercharged, it is liable to ABF therefor. If no conspiracy or wrongful or malicious acts on the part of the defendants can be proved, there should be no award of punitive damages. Counsel for the Company advises that, because the suit is in a preliminary stage, it cannot predict the outcome of this action at this time. No provision has been made in the financial statements for liability, if any, that may result.

There are pending various other legal actions arising in the normal course of business. None of these is expected to have a significant effect on the Company's operating results or financial condition.

EXAMPLE Change in Accounting Principle

SPECTOR INDUSTRIES, INC.
(Accountant's Report)

The Board of Directors and Stockholders
Spector Industries, Inc.

We have examined the consolidated balance sheets of Spector Industries, Inc. and subsidiaries as of December 31, 1978 and 1977 and the related consolidated statements of income, stockholders' equity and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of Spector Industries, Inc. and subsidiaries at December 31, 1978 and 1977 and the results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis except for the change, with which we concur, in the method of accounting for gains and losses on revenue equipment trade-ins and after restatement for the change, with which we concur, in the method of accounting for leases as described in Note 1 to the consolidated financial statements.

(Accounting Policies Footnote)

Changes in Accounting Policies

At the beginning of 1978, the Company retroactively applied the provisions of FASB Statement No. 13, "Accounting for Leases" to pre-1977 leases. This change had no significant effect on net earnings of 1978. Statement No. 13 requires that financial statements for prior periods be restated to reflect the financial results as though the statement had been in effect for those periods. The effect of the accounting change was to reduce income as previously reported for 1977 by $33,000, net of deferred taxes of $10,000. The cumulative effect of the change on prior years reduced retained earnings as of December 31, 1976 by $840,000, net of deferred taxes of $265,000.

Effective January 1, 1978 the Company changed its method of accounting for revenue equipment trade-ins to a method whereby gains and losses on trade-ins are credited or charged to operations. The cumulative effect of the change on retained earnings at January 1, 1978 was not material. Gain on revenue equipment trade-ins amounted to approximately $1,580,000 for 1978. The net effect of this change in accounting was to increase earnings by $1,106,000(60 cents per share).

Section K

Reporting to SEC on Form 10-K

Pursuant to Release No. 34-13477 issued by the SEC on April 28, 1977, companies previously filing annual reports on Form 12-K, and other regulatory agency reports in lieu of Part I of Form 10-Q in accordance with the dorm instructions. This filing requirement is effective for annual and quarterly fiscal periods ending on or after October 1, 1977.

The Form 10-K is divided into two parts:

Part I

Item 1. Business
Item 2. Summary of Operations
Item 3. Properties
Item 4. Parents and Subsidiaries
Item 5. Legal Proceedings
Item 6. Increases and Decreases in Outstanding Securities and Indebtedness
Item 7. Changes in Securities and Changes in Security for Registered Securities
Item 8. Defaults Upon Senior Securities
Item 9. Approximate Number of Equity Security Holders
Item 10. Submission of Matters to a Vote of Security Holders
Item 11. Indemnification of Directors and Officers
Item 12. Financial Statements, Exhibits Filed, and Reports on Form 8-K

Part II

Item 13. Security Ownership of Certain Beneficial Owners and Management
Item 14. Directors and Executive Officers of the Registrant
Item 15. Management Remuneration and Transactions

Examples taken from Item 12 of reports filed with the SEC by certain survey companies are included in this section.

Supplementary Notes to Financial Statements

Footnotes in addition to those contained in the annual report to the shareholders were included in several 10-K's obtained for the survey companies. These footnotes provided additional information, not required by generally accepted accounting principles, but necessary to meet SEC reporting requirements. Examples of such supplementary footnotes follow.

EXAMPLES Additional detail of balance sheet classifications

MCLEAN TRUCKING COMPANY
(Form 10-K)

Note 12--Current Assets: Cash and short-term investments consist of:

	1978	1977
Cash	$ 5,741,844	$ 1,690,176
Short-term investments	7,300,000	9,450,000
	$13,041,844	$11,140,176

Note 13--Inventories: Inventories used in computing cost of sales were:

	Refinery	Other	Total
June 30, 1976	$1,855,151	$613,939	$2,469,090
June 30, 1977	$1,375,907	$752,965	$2,128,872
June 30, 1978	$2,707,479	$935,830	$3,643,309

Note 14--Current Liabilities: Details of items classified as accrued payrolls, payroll taxes and other consist of the following:

	1978	1977
Accrued payrolls	$ 7,700,833	$ 4,980,068
Accrued payroll, property, fuel and other taxes	2,657,782	1,749,224
Other accrued expenses	1,201,681	825,348
Collections for tax authorities and other	1,824,127	2,159,623
Bonuses accrued on current earnings	668,413	1,027,300
Accrued payrolls, payroll taxes and other	$14,052,836	$10,741,563

EXAMPLE Supplemental disclosure of stock options

SMITH'S TRANSFER CORPORATION
(Form 10-K)

11. Stockholders' Equity: Reference is made to Note 4 of Notes to Consolidated Financial Statements incorporated herein by reference. The following table relates to options outstanding, becoming exercisable, and exercised during 1978 and 1977:

Options	Number of Shares	Option Price Avg. Per Share	Option Price Total	Corresponding Market Price Avg. Per Share	Corresponding Market Price Total
Outstanding at:					
January 1, 1977	34,175	$10.74	$367,053	$17.88(a)	$610,878
December 31, 1977	31,775	10.81	343,628	20.00	635,500
December 30, 1978	28,675	10.88	311,866	14.75	422,956
Becoming exercisable:					
During 1977	7,075	10.68	75,540	18.24(b)	129,016
During 1978	7,675	10.31	79,165	19.56	150,122
Exercised:					
During 1977	2,400	9.76	23,425	18.46(c)	44,299
During 1978	3,100	10.25	31,763	21.22	65,775

(a) At the respective year-end dates.
(b) At the dates options became exercisable.
(c) At the dates options were exercised.

EXAMPLE Disclosure of Incentive Compensation Plans

ROADWAY EXPRESS, INC.
(Form 10-K)

Note N--Incentive Compensation And Stock Bonus Plans

The registrant has adopted annually, for many years, an incentive compensation plan for salaried employees based upon attainment by specified profit centers of objectives relating to (1) profit, (2) service; i.e., in-transit time of shipments, and (3) revenue. Under the plans, incentive compensation is payable in cash if profit exceeds 3% of revenue. The amounts charged to expense for the plans were approximately $15,097,000 and $14,120,000 for 1978 and 1977, respectively.

The registrant since 1966 has had in effect a stock bonus plan for salaried employees who have completed six months' employment. Under the plan, contributions by the registrant to a bank trustee, equal to 10% of profit before federal income taxes but after deduction of an amount equal to 3% of revenue for the year, are allocated, subject to limitation, to participants on the basis of cash compensation earned for the year. The trustee purchases registrant's common stock on the open market and holds the shares for distribution to the participants upon retirement. The amounts charged to expense for the plan were approximately $8,443,000 and $6,924,000 for 1978 and 1977, respectively.

EXAMPLE Supplementary Income Statement Information

CONSOLIDATED FREIGHTWAYS, INC.
(Form 10-K)

Supplementary Income Statement Information

The following amounts have been included in the "Costs and Expenses" section of the Statements of Consolidated Income for the years ended December 31, 1978 and 1977:

	December 31	
	1978 (in thousands)	1977
Maintenance and repairs	$72,365	$55,068
Taxes, other than income taxes		
Payroll	$29,932	$24,989
Fuel	12,835	11,551
Vehicle registration and licenses	8,147	4,375
Property	5,808	4,850
Other	2,233	4,594
Total Taxes, Other than Income Taxes	$58,955	$50,359

EXAMPLE Estimated Replacement Cost (Unaudited)

OVERNIGHT TRANSPORTATION COMPANY
(Form 10-K)

Replacement cost (unaudited)

The trucking industry is labor intensive, dependent on petroleum products and requires extensive capital outlays for revenue producing equipment and terminal facilities. Inflationary pressures on these items have been extensive; however, the Registrant has been able to counteract these increases through more efficient operations and higher freight rates.

Replacing the Registrant's tangible assets with new assets of equivalent operating capabilities at current prices would require greater capital investment than that needed at the time these assets were acquired. Measuring the cumulative impact of inflation over the estimated useful lives of these assets is required by Rule 3-17 of Regulation S-X. Accordingly, the Registrant has estimated replacement cost of tangible property and inventories as of December 31, 1978 and the related estimated effect of such replacement costs on depreciation expense for the years then ended.

Replacement Cost is defined as the lowest amount that would have to be paid in the normal course of business to obtain new assets of equivalent operating capability.

Replacement Cost Data was estimated using the following techniques:

> Since the Registrant experiences a rapid turnover of inventory (tires, tubes, fuel, repair parts, etc.), the historical cost of such items was considered a reasonable estimate of replacement cost.
>
> Replacement cost for 94% of revenue equipment (tractors, trailers and straight trucks) was determined using current prices paid for similar equipment; the remaining 6% of revenue equipment was costed using trending tables specifically developed for the motor carrier industry. Revenue equipment was assumed to be replaced on a one for one basis with equipment of current technology, including current governmental and regulatory agency safety and omission requirements.
>
> Replacement cost of terminals less than eleven (11) years old was developed by trending the respective historical cost to current date. The trending technique was applied to 48% of the Registrant's terminals. The trending tables used were those developed specifically for the motor

carrier industry. For terminals owned by the Company for more than ten (10) years, a model using standard architectural design and current construction cost using the comparison method developed specifically for the motor carrier industry.

Construction of the Company's General Office Building was completed in 1976. This cost was trended to current date. The replacement cost of the subsidiary's warehouse was estimated using current construction cost of similar facilities.

The replacement cost of other miscellaneous equipment was estimated using trending tables provided specifically for the motor carrier industry.

Replacement cost accumulated depreciation was developed by applying a calculated ratio (historical cost accumulated depreciation divided by the historical cost of all assets) to total assets stated at replacement cost.

Replacement cost depreciation was computed on the straight-line method using the same estimates of useful lives and salvage values as used for historical depreciation computations.

The following sets forth the estimated replacement cost and depreciation computed on replacement cost compared with historical cost data at December 31, 1978 and 1977:

	December 31, 1978		December 31, 1977	
	Replacement Cost	Historical Cost	Replacement Cost	Historical Cost
Inventory:				
Tires, tubes, fuel, oil, repair parts and supplies	$ 2,500,000	$ 2,500,000	$ 2,000,000	$ 2,000,000
Equipment, plant and property (excluding land and construction in progress):				
Structures	$ 62,000,000	$ 33,000,000	$ 53,000,000	$ 31,000,000
Revenue equipment	133,000,000	92,000,000	110,000,000	74,000,000
Other equipment	15,000,000	11,000,000	13,000,000	9,000,000
	210,000,000	136,000,000	176,000,000	114,000,000
Less accumulated depreciation	99,000,000	57,000,000	74,000,000	49,000,000
	$111,000,000	$ 79,000,000	$102,000,000	$ 65,000,000
Annual depreciation	$ 16,000,000	$ 11,000,000	$ 14,000,000	$ 9,000,000

A reconciliation of the historical cost information presented above to that shown on the consolidated balance sheet follows:

	1978	1977
Historical cost:		
Inventories	$ 2,500,000	$ 2,000,000
Tangible property	136,000,000	114,000,000
	138,500,000	116,000,000
	1978	1977
Add (Deduct)		
Land	6,603,000	6,420,000
Construction in progress	906,000	1,362,000
Assets for which no replacement is intended	369,000	544,000
Other (rounding of assets for which replacement cost is provided)	(486,000)	(543,000)
	$ 7,392,000	$ 7,783,000
Historical cost of inventories and tangible property as shown on the consolidated balance sheet	$145,892,000	$123,783,000

The historical cost of assets depreciated to residual value at December 31, 1978 was approximately $29,000,000 or 21% of the Company's total production capability.

The Registrant cautions that net depreciated replacement cost should not be construed to represent the current market value of the Registrant's tangible assets. Similarly, users are cautioned against simple insertion of estimated replacement cost of assets in lieu of the applicable amounts in the historical financial statements when analyzing the Registrant's financial position. No additional values should be assumed by shareholders because the estimated replacement cost of assets exceeds the historical cost of these assets.

The Registrant maintains efficient terminal facilities and a modern fleet of revenue equipment through its replacement and maintenance programs. Under these programs it would not be necessary to replace a substantial portion of its tangible assets in any one year; however, if such were done, as is assumed under the replacement cost presentations, savings should be realized in maintenance and repair costs and improved utilization of revenue equipment. Forecasting such benefits is difficult and therefore not presented.

The replacement cost information presented above has certain limitations relating to the underlying assumptions, subjective judgements and imprecise calculations which must be made in the estimating process. Further, in making the replacement cost computations, the Registrant relied on trend factors developed from price indices, industry composite data and other sources. The Registrant has no means of verifying the reliability of this outside information.

Financial Schedules

Financial schedules are required by Article 5 of Regulation S-X. These schedules provide detailed information underlying certain captions in the financial statements. Article 12 of Regulation S-X presecribes the form and content of these schedules. Examples of such schedules filed in Form 10-K's obtained for the survey companies are provided below.

EXAMPLE Schedule I

CONSOLIDATED FREIGHTWAYS, INC.

Schedule I
Marketable Securities
(Parent Company and Consolidated)
December 31, 1978
(In Thousands of Dollars)

Type of investment and issuer	Cost (which approximates market)
Consolidated Freightways, Inc.	
Bankers Acceptances	
The Sanwa Bank Ltd.	$ 5,984
Repurchase Agreements with Banks	
U.S. Treasury Bond	6,000
Commercial Paper	
Chrysler Financial Corp.	2,800
Certificate of Deposit	
Golden State Sanwa Bank	2,000
Total--Parent Company	$16,784
Consolidated Subsidiaries	
Other Marketable Securities	3,096
Total--Consolidated	$19,880

EXAMPLE Schedule II

SMITH'S TRANSFER CORPORATION

SCHEDULE II—AMOUNTS RECEIVABLE FROM UNDERWRITERS, PROMOTERS, DIRECTORS, OFFICERS, EMPLOYEES, AND PRINCIPAL HOLDERS (OTHER THAN AFFILIATES) OF EQUITY SECURITIES OF THE PERSON AND ITS AFFILIATES

FOR THE YEARS ENDED DECEMBER 30, 1978 AND DECEMBER 31, 1977

COL. A	COL. B	COL. C	COL. D		COL. E	
NAME OF DEBTOR	Balance at Beginning of Period	Additions	DEDUCTIONS		BALANCE AT END OF PERIOD	
			(1) Amounts Collected	(2) Amounts Written Off	(1) Current	(2) Not Current
YEAR ENDED DECEMBER 30, 1978:						
Employees (a)						
H. C. Haworth	$ ---	$26,551	$26,551		$ ---	
C. E. Hudson	---	41,000	41,000		---	
W. D. Kirkpatrick	---	53,216	53,216		---	
A. H. LaFountain	---	25,627	25,627		---	
D. H. Lang	---	34,733	34,733		---	
M. R. Majewski	---	53,660	53,660		---	
W. D. Minter	---	25,031	25,031		---	
T. W. Ward	---	47,027	47,027		---	
H. D. Warner	---	61,200	61,200		---	
J. E. Couch	1,867	---	1,867		---	
Underwriters (b)						
Gallaher & Co.	25,663	---	25,663		---	
YEAR ENDED DECEMBER 31, 1977:						
Employees (a)						
J. E. Belshee	---	23,555	23,555		---	
J. W. Couch	2,665	---	798		1,867	
H. G. Hyer	1,100	25,543	26,643		---	
T. N. Lewis	---	46,972	46,972		---	
C. W. McClean	---	21,768	21,768		---	
E. L. Plummer	---	20,099	20,099		---	
J. W. Summers	---	35,000	35,000		---	
A. S. Tyler	---	27,558	27,558		---	
T. L. Warren	---	21,849	21,849		---	
Underwriters (b)						
Gallaher & Co.	---	25,663	---		25,663	

(a) The company holds notes secured by the homes of transferred employees.

(b) Represents a portion of expenses paid by the company and due from the promoter, in connection with 9% Senior Note Offering.

EXAMPLE Schedule III

CHEMICAL LEAMAN CORPORATION
(Parent Company)

SCHEDULE III—INVESTMENTS IN, EQUITY IN EARNINGS OF, AND DIVIDENDS RECEIVED FROM AFFILIATES AND OTHER PERSONS

JANUARY 1, 1978 TO DECEMBER 31, 1978

COL. A	COL. B		COL. C		COL. D		COL. E		COL. F
	BALANCE AT BEGINNING OF PERIOD		ADDITIONS		DEDUCTIONS		BALANCE AT END OF PERIOD		
NAME OF ISSUER AND DESCRIPTION OF INVESTMENT	(1) Number of Shares or Units. Principal Amount of Bonds and Notes	(2) Amount in Dollars	(1) Equity Taken Up in Earnings (Losses) of Affiliates and Other persons for the Period	(2) Other	(1) Distribution of Earnings By Persons in Which Earnings (Losses) Were Taken Up	(2) Other	(1) Number of Shares or Units. Principal Amount of Bonds and Notes	(2) Amount in Dollars	Dividends Received During the Period from Investments Not Accounted for by the Equity Method
Consolidated Subsidiaries:									
Chemical Leaman Tank Lines, Inc.	1,303,283 100%	$31,515,000	$6,912,000		$1,759,000		1,303,283 100%	$36,668,000	
Chemical Properties, Inc.	162.5 100%	1,102,000	250,000		11,000		162.5 100%	1,341,000	
Chemical Leasing Corporation	5,000 100%	49,000	(39,000)		---		5,000 100%	10,000	
Tank Service Company	100 100%	124,000	18,000		---		100 100%	142,000	
		$32,790,000	$7,141,000		$1,770,000			$38,161,000	

EXAMPLE Schedule IV

ARKANSAS BEST CORPORATION
(Parent Company)

SCHEDULE IV—INDEBTEDNESS OF AFFILIATES AND OTHER PERSONS—NOT CURRENT

For the Years Ended December 31, 1978 and December 31, 1977

COL. A	COL. B	COL. C
NAME OF PERSON	Balance at Beginning of Period	Balance at End of Period
For the Year Ended December 31, 1978:		
Arkansas Best Freight System, Inc.	$2,500,000	$20,800,000 (A)
Riverside Furniture Corporation	6,150,000	10,200,000 (B)
	$8,650,000	$31,000,000
For the Year Ended December 31, 1977:		
Arkansas Best Freight System, Inc.	$1,000,000	$ 2,500,000 (C)
Riverside Furniture Corporation	5,000,000	6,150,000 (B)
	$6,000,000	$ 8,650,000

Note A--Increase primarily related to financing the acquisition of Navajo Freight Lines, Inc.

Note B--Increase required to provide additional working capital needed as a result of the increase in furniture sales and the resulting increases required in inventory levels.

Note C--Increase required to assist in financing of equipment replacement program and acquisition of additional operating rights.

EXAMPLE Schedule V

COASTAL INDUSTRIES, INC.

SCHEDULE V—PROPERTY, PLANT AND EQUIPMENT

Year Ended September 30, 1978

COL. A	COL. B	COL. C	COL. D	COL. E	COL. F
CLASSIFICATION	Balance at Beginning of Period	Additions at Cost	Retirements	Other Changes—Add (Deduct)—Describe	Balance at End of Period
Land and improvements	$ 1,101,622	$ -0-	$ 86,365	$ -0-	$ 1,015,257
Structures	4,578,087	31,691	161,945	(80,498)(3)	4,367,335
Revenue equipment	31,241,453	7,772,162(1) 930,132(2)	2,747,647	204,072 (3)	37,400,172
Other equipment	1,756,309	632,042 236,508(2)	153,545	(118,741)(3)	2,352,573
Leasehold improvements	299,066	14,774	-0-	(4,833)(3)	309,007
TOTALS	$38,976,537	$9,617,309	$3,149,502	$ -0-	$45,444,344

(1) Represents new revenue equipment purchased and replacements to existing fleet

(2) Cost of operating property acquired through the purchase of Ny-Trex, Inc. on June 1, 1978

(3) Reclassifications

YELLOW FREIGHT SYSTEM, INC.

SCHEDULE VI—ACCUMULATED DEPRECIATION, DEPLETION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT

FOR THE YEARS ENDED DECEMBER 31, 1978 AND 1977

COL. A	COL. B	COL. C	COL. D	COL. E	COL. F
DESCRIPTION	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Retirements	Other Changes—Add (Deduct)—Describe	Balance at End of Period
	(In Thousands)				
1978					
Structures	$ 28,388	$ 5,452	$ 182	$ (2) (1)	$ 33,656
Revenue equipment	63,046	32,417	12,027	(32) (1)	83,404
Other operating property	10,006	2,002	571	34 (1)	11,471
	$101,440	$39,871	$12,780	$ -	$128,531
Reconciliation to funds statement:					
Depreciation charged to non-operating expense		(346)			
Depreciation charged to operating expense		$39,525			
1977					
Structures	$ 23,874	$ 4,648	$ 100	$(34) (1)	$ 28,388
Revenue equipment	43,274	26,466	6,786	92 (1)	63,046
Other operating property	8,389	2,247	572	(58) (1)	10,006
	$ 75,537	$33,361	$7,458	$ -	$101,440
Reconciliation to funds statement:					
Braswell Motor Freight Lines, Inc. assets shown net		(2,871)			
Depreciation charged to non-operating expense					
Depreciation charged to operating expense		(303)			
		$30,187			

(1) Transfers between account classifications

SPECTOR INDUSTRIES, INC.

SCHEDULE VII—INTANGIBLE ASSETS, DEFERRED RESEARCH AND DEVELOPMENT EXPENSES, PREOPERATING EXPENSES AND SIMILAR DEFERRALS

December 31, 1977 and 1978

COL. A	COL. B	COL. C	COL. D		COL. E	COL. F
			DEDUCTIONS			
DESCRIPTION	Balance at Beginning of Period	Additions at Cost—Describe	(1) Charged to Costs and Expenses	(2) Charged to Other Accounts—Describe	Other Changes—Add (Deduct)—Describe	Balance at Close of Period
Year ended December 31, 1977:						
Intangible assets, primarily operating authorities	$11,362,049	28,465			(419,500) (A)	10,971,014
	$11,362,049	28,465			(419,500) (A)	10,971,014
Year ended December 31, 1978:						
Intangible assets, primarily operating authorities	$10,971,014	425,104				11,396,118
	$10,971,014	425,104				11,396,118

Notes: (A) Sale of operating authorities.

YELLOW FREIGHT SYSTEM, INC.

SCHEDULE VIII—ACCUMULATED DEPRECIATION AND AMORTIZATION OF INTANGIBLE ASSETS

FOR THE YEARS ENDED DECEMBER 31, 1978 AND 1977

COL. A	COL. B	COL. C		COL. D	COL. E
		ADDITIONS			
DESCRIPTION	Balance at Beginning of Period	(1) Charged to Costs and Expenses	(2) Charged to Other Accounts—Describe	Deductions—Describe	Balance at End of Period
	(In Thousands)				
Part A					
Year ended December 31, 1978:					
Operating rights	$1,937	$388	$ -	$ -	$2,325
Year ended December 31, 1977:					
Operating rights	$1,475	$462	$ -	$ -	$1,937
Part B					
Not Applicable					

EXAMPLES Schedule IX

OVERNITE TRANSPORTATION COMPANY

SCHEDULE IX—BONDS, MORTGAGES AND SIMILAR DEBT

December 31, 1978

COL. A	COL. B	COL. C	COL. D		COL. E	COL. F	COL. G	COL. H	
			AMOUNT INCLUDED IN COLUMN C, WHICH IS					AMOUNT HELD BY AFFILIATES FOR WHICH STATEMENTS ARE FILED HEREWITH	
NAME OF ISSUER AND TITLE OF EACH ISSUE	Amount Authorized by Indenture	Amount Issued and Not Retired or Cancelled	(1) Held by or for Account of Issuer Thereof	(2) Not Held by or for Account of Issuer Thereof	Amount Included in Sum Extended Under Caption "Bonds, Mortgages and Similar Debt" in Related Balance Sheet	Amount in Sinking and Other Special Funds of Issuer Thereof	Amount Pledged by Issuer Thereof	(1) Persons Included in Consolidated Statement	(2) Others
Credit Agreement (1)	$20,000,000	$ 9,000,000	$ -	$ 9,000,000	$ 9,000,000	$ -	$ -	$ -	$ -
Term loan (1)	6,000,000	4,300,000	-	4,300,000	4,300,000	-	-	-	-
Automatic Premium Loan (1)	-	66,000	-	66,000	66,000	-	-	-	-
	$26,000,000	$13,366,000	$ -	$13,366,000	$13,366,000	$ -	$ -	$ -	$ -
Less Current Maturities of Long-Term Debt					400,000				
					$12,966,000				

(1) See Note 3 to the Consolidated Financial Statements for additional description of these securities.

EXAMPLE Schedule X

IU INTERNATIONAL CORPORATION
(Parent Company)

SCHEDULE X—INDEBTEDNESS TO AFFILIATES AND OTHER PERSONS—NOT CURRENT

December 31, 1978
(In thousands)

COL. A	COL. B	COL. C
NAME OF PERSON	Balance at Beginning of Period	Balance at End of Period
International Utilities Overseas Capital Corporation:		
Prime, due 13 months after written demand	$ 2,710	-
9-1/8% note, due after December 31, 1978	2,500	-
IU Overseas Finance N.V.:		
9-1/4% note, due after December 31, 1978	28,000	-
Note due after December 31, 1979 (1)	36,300	74,566
Telephone answering Service, Limited:		
7-1/2% note, due through 1988	3,660	3,042
IU Investment Corporation:		
Prime, due after December 31, 1978	7,250	-
IU Transportation Services, Inc.:		
Note at prime, due after December 31, 1979	-	923
IMS Lycrete, Inc. - non-interest bearing	134	134
International Utilities Corporation - non-interest bearing	700	700
Total	$81,254	79,365

(1) Note bears interest at the rate of 3/8 percent above the composite cost of funds to the lender.

EXAMPLE Schedule XII

McLEAN TRUCKING COMPANY

SCHEDULE XII—VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

COL. A	COL. B	COL. C		COL. D	COL. E
		ADDITIONS			
DESCRIPTION	Balance at Beginning of Period	(1) Charged to Costs and Expenses	(2) Charged to Other Accounts—Describe	Deductions—Describe	Balance at End of Period
Year Ended June 30, 1978: Deducted from asset accounts:					
Reserve for uncollectible accounts receivable	$ 710,000	$ 1,068,887	$ 21,700 (5)	$ 855,587 (2)	$ 945,000
Reserve for claims as self-insurer	$ 1,607,000	$ 9,934,863	$ (930,620)(1)	$8,649,243 (3)	$ 1,962,000
Reserve for deferred income taxes	6,953,851	1,313,202	65,100 (5)		8,332,153
	8,560,851	11,248,065	(865,520)	8,649,243	10,294,153
Portion of reserve for claims in current liabilities	5,407,000		930,620 (1)		6,643,000
			305,380 (5)		
	$13,967,851	$11,248,065	$ 370,480	$8,649,243	$16,937,153
Year Ended June 30, 1977: Deducted from asset accounts:					
Reserve for uncollectible accounts receivable	$ 664,000	$ 770,907	$ -0-	$ 724,907 (2)	$ 710,000
Reserve for claims as self-insurer	$ 1,233,000	$ 8,758,404	$(1,352,155)(1)	$7,032,249 (3)	$ 1,607,000
Reserve for deferred income taxes	6,256,723	697,128			6,953,851
	7,489,723	9,455,532	(1,352,155)	7,032,249	8,560,851
Portion of reserve for claims in current liabilities	4,100,000		1,352,155 (1)	45,155 (4)	5,407,000
	$11,589,723	$ 9,455,532	$ -0-	$7,077,404	$13,967,851

(1) Transfers between account classifications.

(2) Uncollectible accounts written off, net of recoveries.

(3) Payment of claims, net of recoveries.
(4) Reclassification to trade accounts payable per I.C.C. instructions.
(5) Recorded in connection with the acquisition of Wolverine Express, Inc. and Crescent Motor Lines.

EXAMPLE Schedule XIII

ROADWAY EXPRESS, INC.

SCHEDULE XIII—CAPITAL SHARES

December 31, 1978

COL. A	COL. B	COL. C	COL. D		COL. E		COL. F		COL. G	
NAME OF ISSUER AND TITLE OF ISSUE	Number of Shares Authorized by Charter	Number of Shares Issued and Not Retired or Cancelled	Number of Shares Included in Column C Which Are		Shares Issued or Outstanding as Shown on or Included in Related Balance Sheet Under Caption "Capital Shares"		Number of Shares Held by Affiliates for Which Statements are Filed Herewith		Number of Shares Reserved for Options, Warrants, Conversions and Other Rights	
			(1) Held by or for Account of Issuer Thereof	(2) Not Held by or for Account of Issuer Thereof	(1) Number	(2) Amount at Which Shown	(1) Persons Included in Consolidated Statements	(2) Others	(1) Directors, Officers and Employees	(2) Others
ROADWAY EXPRESS, INC.										
Common Stock, without par value	25,000	20,448,207	31,590	20,416,617	20,448,208(A)	$39,898,362				

(A) Includes shares in treasury, as set forth in column D(1).

NOTE--The information applicable to the consolidated subsidiaries has been omitted as they are wholly-owned and the answers to column G would be "None".

EXAMPLE Schedule XVI

TRANSCON LINES

SCHEDULE XVI—SUPPLEMENTARY INCOME STATEMENT INFORMATION

COL. A	COL. B	
ITEM	Charged to Costs and Expenses	
	Year Ended December 31	
	1978	1977
1. Maintenance and repairs	$17,169,000	$15,500,000
2. Depreciation, deletion and amortization of property, plant and equipment (Schedule VI)	10,151,000	8,942,000
3. Depreciation and amortization of intangible assets	*	*
4. Taxes other than income taxes		
Payroll	7,068,000	5,714,000
Fuel and oil	4,226,000	3,865,000
Other	1,012,000	1,056,000
5. Rents (Net rental expense from Footnote 6)	2,806,000	2,553,000
6. Royalties	*	*
7. Advertising costs	*	*
8. Research and development costs	*	*

* Represents less than 1% of revenues

Appendix I

Summary of Replacement Cost Data

Certain companies (see Section I for criteria) are required to include replacement cost data in their Form 10-K's filed annually with the SEC. (See Section K for an example of disclosure.) The table shown herein summarizes the data for five of the survey companies as to the impact on net income, primary earnings per share and return on equity had replacement cost been used to determine net income and equity. All of the five companies selected are principally motor carriers with no significant non-motor carrier operations.

Net Income (in thousands)

	1978			1977		
	Historical Basis	Replacement Basis	Decrease	Historical Basis	Replacement Basis	Decrease
Roadway Express, Inc.	$56,917	$48,366	$8,551	$46,646	$37,906	$8,740
Yellow Freight System, Inc.	39,025	32,491	6,534	37,625	33,277	4,348
McLean Trucking Company	15,416	11,781	3,635	15,301	11,562	3,739
Overnite Transportation Company	13,593	10,993	2,600	12,102	9,762	2,340
Smith's Transfer Corporation	9,302	7,359	1,943	9,020	7,252	1,768

Primary Earnings Per Share

	1978			1977		
	Historical Basis	Replacement Basis	Decrease	Historical Basis	Replacement Basis	Decrease
Roadway Express, Inc.	$2.78	$2.36	$.42	$2.28	$1.85	$.43
Yellow Freight System, Inc.	2.73	2.27	.46	2.63	2.33	.30
McLean Trucking Company	2.74	2.09	.65	2.73	2.06	.67
Overnite Transportation Company	4.26	3.45	.81	3.81	3.07	.74
Smith's Transfer Corporation	3.69	2.92	.77	.359	2.88	.71

Return on Equity

	1978			1977		
	Historical Basis	Replacement Basis	Decrease	Historical Basis	Replacement Basis	Decrease
Roadway Express, Inc.	21.2%	18.0%	3.2%	20.5%	16.7%	3.8%
Yellow Freight System, Inc.	20.3	16.9	3.4	23.2	20.5	2.7
McLean Trucking Company	15.7	12.0	3.7	17.9	13.5	4.4
Overnite Transportation Company	19.6	15.9	4.0	20.4	16.5	3.9
Smith's Transfer Corporation	17.0	13.4	3.6	19.1	15.3	3.8

Company Names and Index of Excerpts

Following are the 47 motor carrier companies whose 1978 annual reports were included in this survey. The Company names are those under which the annual report was issued. Pages on which excerpts from the company's annual report may be found are indicated. For ease of reference the word "the" has been eliminated in all cases in which it is part of the company's name.

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Ernst & Whinney

1979 Financial Reporting

Banking

B3330-1.2 A

Ernst & Whinney

1979 Financial Reporting Trends

Banking

A survey of banking industry reporting practices
as disclosed in 1978 published annual reports and
filings with the Securities and Exchange Commission.

E&W No. B58173

Other Ernst & Whinney Financial Reporting Trends publications:

Fire & Casualty Insurance 1979
Life Insurance 1979
Motor Carriers 1979
Savings and Loan 1979

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Appendix I Banks Included in the Survey

Appendix II Survey Company Lists

Appendix III Topical Index

Foreword

The annual reports in this survey were selected from among those of the nation's 500 largest banks. As in prior surveys, findings are presented in three categories: commercial banks, multi-bank holding companies and one-bank holding companies. Again, a portion of this survey is devoted to an analysis of annual reports on Form 10-K filed with the Securities and Exchange Commission.

The banks in the survey

The banks whose reports are included in the survey are all of the top 200 by deposit size as of December 31, 1978 and 75 randomly selected banks from those in the range of 201 to 500 by deposit size as published in the *American Banker*. Reports analyzed were those of individual banks, holding company banks publishing separate reports, and holding companies. Because several banks owned by multi-bank holding companies did not publish a separate annual report, 253 reports were analyzed this year.

The analysis of bank holding company reporting practices as disclosed in Form 10-K filings with the Securities and Exchange Commission is based on the reports of 50 of the largest bank holding companies —25 multi-bank holding companies and 25 one-bank holding companies.

Appendix I lists the banks included in the survey, and Appendix II shows the company reports analyzed.

Aggregate Financial Data for the Companies in the Survey (in Millions of Dollars)

	Commercial Banks[1]	Multi-bank Holding Companies	One-bank Holding Companies	Total 1979 Survey Companies	Total 1978 Survey Companies[2]
Assets	$86,556	$564,690	$410,600	$1,061,846	$925,477
Loans	47,525	321,763	229,090	598,378	499,327
Deposits	69,163	433,197	313,635	815,995	725,890
Operating income	6,579	43,477	30,042	80,098	62,037
Income before security transactions	619	3,393	2,349	6,361	5,038
Net income	595	3,293	2,296	6,184	5,079

[1] Excludes banks held by multi-bank holding companies when both the bank and the holding company reports are in the survey.

[2] Taken from Financial Reporting Trends—Banking 1978.

How each section of the survey is organized

Each section typically consists of three subsections:

1. A brief narrative which summarizes the details in the tables and examples which follow.

2. Tables which summarize prevailing practices for the subject of the section. The tables include results of the prior year's survey, if available, for comparison purposes.

3. Examples selected which illustrate either representative or unusual reporting practices. For the most part they appear in the same sequence as the related tables. Examples included are taken only from 1978 annual reports.

Tables in all sections are shown in percentages except those in Section I, which are by the number of holding companies. Unless the number of companies covered by the percentages is listed in the bottom of the percentage distribution, the number is always the same, namely:

	1979	1978
Commercial banks	67	57
Multi-bank holding companies	123	120
One-bank holding companies	63	74
Total	253	251

The survey companies' data is shown by type of company only if significant differences were found between the three types. Otherwise, the companies are combined. Multi-bank and one-bank companies are similarly combined if there are no significant differences between the two types of holding companies.

If a separate annual report of a survey bank owned by a multi-bank holding company was available, it is included under "Commercial Banks." The related multi-bank holding company report is included under "Multi-bank Holding Companies."

For simplicity, the following titles have been used in place of those actually used by the reporting entity:

Statement of condition

Statement of income

Statement of changes in shareholders' equity

Statement of changes in financial position

Notes to financial statements or footnotes

The analysis of published annual reports was generally confined to the formal financial statements. In most cases, if the survey item was not disclosed in the financial statements, it is not included in the analysis even though it may have been mentioned in the body of the annual report. The few exceptions are clearly identified in the text or tables.

References to notes to financial statements have been omitted in the examples if the omissions do not affect the example in relation to the purpose of the survey. Company names are as they appear in the annual report except "the" has been eliminated when it is the first word in the name.

Included in Section A of *Financial Reporting Trends—Banking* are brief comments as to reporting and/or accounting requirements which recently became effective or are presently under study. Ernst & Whinney publishes a *Financial Reporting Developments* series which provides a thorough analysis of emerging accounting and reporting topics.

Additional copies of the 1979 edition of *Financial Reporting Trends—Banking* and copies of *Financial Reporting Developments* may be obtained from the Ernst & Whinney office which serves you or by writing to Charles W. Scott, Ernst & Whinney, 1300 Union Commerce Building, Cleveland, Ohio 44115.

Ernst & Whinney Banking Committee
December 1979

SECTION A

Summary of Current Reporting Trends

E&W's *Financial Reporting Trends—Banking 1979*, the eighth annual edition of the publication, contains the results of a survey of 1978 financial reports—253 annual reports to shareholders and 50 Form 10-K filings with the Securities and Exchange Commission (SEC).

The most significant changes in reporting stem from the SEC's 1978 revision of Article 9 of Regulation S-X, which specifies the form and content of financial statements of banks and bank holding companies. Although the new rules were effective for periods beginning after December 24, 1978, the SEC strongly encouraged earlier compliance, and banks responded in varying degrees. Section I of *Trends* tells more about the revisions to Article 9 as they relate to annual reports on Form 10-K.

Significant reporting trends in 1978 annual reports to shareholders include:

Income statement format

Prior to revision, Article 9 referred to Regulation F for the income statement format to be used by registrants. Article 9 now requires presentation in the income statement of net interest income both before and after the provision for loan losses. As a result, net interest income or net interest margin was reported in either the income statement, the summary of operations, or both by 87% of the companies surveyed, as compared to 60% in 1977. The percentage breakdown was:

	1978	1977	1976
Commercial banks	70%	37%	9%
Multi-bank holding companies	94	68	37
One-bank holding companies	90	64	27

Foreign activities

FASB Statement No. 14 "Financial Reporting for Segments of a Business Enterprise", includes requirements for disclosure of foreign activities in audited financial statements. Article 9 now calls for expanded disclosure of foreign activities beyond the requirements of Statement No. 14. Our publication "SEC Adopts Final Rules for Bank Reporting" (E&W No. 38915) includes a comparison of the two pronouncements. Significant differences are in the test for when disclosure is required, definition of foreign activities, and definition of significant geographic area.

The SEC encouraged early compliance with its foreign activities disclosure requirement even though it recognized that information for 1978 or earlier may not be available. Under certain circumstances, Article 9 requires disclosure of information on loans, allowances for loan losses, bank balances in other countries, deposits, other borrowings, revenue, expenses, income before income taxes, and net income. The footnote disclosures reviewed in our survey did not always include all items required by revised Article 9. The most frequently disclosed items were loans, deposits, and revenue.

Disclosure of foreign activities was:

	1978	1977
Commercial banks	25%	11%
Holding companies	50	21

Related party disclosure

The AICPA's Statement on Auditing Standards No. 6, "Related Party Transactions", requires that related party transactions that are material, individually or in the aggregate, be disclosed. Article 9 now requires footnote disclosure of aggregate loans to, or borrowings from, persons related to the registrant and its "principal subsidiaries" as directors, executive officers, or principal holders of equity securities when the aggregate amount is 5% or more of shareholders' equity. Loans and borrowings include amounts with any business in which these persons are general partners or have a 10% or greater interest, with trusts and estates in which they are involved, and with relatives living with them. The inclusion of borrowings from related parties in the SEC reporting requirement raised the question as to whether deposits by related parties in subsidiary banks should be considered part of a bank holding company's aggregate indebtedness. The SEC recently issued an interpretive release which clarified that deposits need not be considered part of aggregate indebtedness.

Our survey findings indicated the following:

	1978	1977
Reports which disclosed related party transactions:		
Commercial banks	55%	37%
Holding companies	50%	43%

	1978
Reports in which amount of related party loans disclosed exceeded 5% of shareholders equity (information was not surveyed in 1977):	
Commercial banks	33%
Holding companies	35

Whereas Article 9 footnote disclosure of related party loans relates to the aggregate amount of loans to related parties as a group, disclosure of the aggregate amount of loans to or from each related party is now required in Schedule I (which replaces Schedule VIII) when the amount exceeds the lesser of $500,000 or 2½% of shareholders' equity at anytime during the reporting period. The SEC has advised that it is reconsidering this disclosure requirement but has given no indication as to the nature or timing of any modification.

Agregate market value of investment securities

Under previous filing instructions, registrants could disclose the aggregate market value of investment securities either parenthetically on the balance sheet or in a footnote. Article 9 now requires aggregate market value to be disclosed parenthetically on the balance sheet. Of the companies surveyed 54% met this requirement in 1978.

Security concentrations

The concept of disclosing security concentrations was emphasized by the SEC in Accounting Series Release No. 188, which required disclosure of New York City securities exceeding 10% of shareholders' equity. Article 9 now requires that the aggregate book and market values of any securities of a single issuer must be disclosed if they exceed ten percent of shareholders' equity. In 1978, 18% of the companies surveyed made this disclosure, as compared to 10% in 1977.

Market value of trading account securities

In accordance with practices permitted by regulatory authorities, banks have valued trading account securities at cost, market, or lower of cost or market. A proposed revision to Article 9 would have required trading account securities to be carried at market. However, the SEC decided to wait until the FASB considers the appropriate valuation method, thus permitting banks to use the other methods until the FASB rules on the matter. Our survey indicated that of the reports disclosing trading account securities, 73% used lower of cost or market in 1978 compared to 78% in 1977. Article 9 does require that the market value of these securities be disclosed parenthetically on the balance sheet if they are not carried at market. Of the companies in the survey that disclosed trading accounts, 53% disclosed market value in the balance sheet in 1978, as compared to 30% in 1977.

Lease financing

FASB Statement No. 13, "Accounting for Leases", requires disclosure of the net investment in leases when a significant part of revenue, net income, or assets relate to leasing activities. Revised Article 9 also requires disclosure of lease financing, if significant, in a separate caption on the balance sheet with a footnote disclosing the net investment in direct financing leases and leveraged leases.

In 1978, 58% of the survey companies made lease financing disclosures, as compared to 50% in 1977. Of the companies making lease disclosures, 30% disclosed leveraged lease financing in 1978 as compared to 14% in 1977.

Other real estate

In Staff Accounting Bulletin (SAB) No. 13, issued in January 1977, the SEC advised that the carrying value of other real estate should be shown separately on a registrant's balance sheet because of the risk and uncertainty associated with that type of asset. Article 9 was revised to provide further guidance by requiring separate disclosure of other real estate on the balance sheet when it exceeds 30% of shareholders' equity and separate disclosure of the related net expense in the income statement if it exceeds 1% of revenue. Disclosures relating to other real estate in 1978 did not increase, however, as indicated by the following:

	1978	1977	1976
Commercial banks	54%	51%	40%
Multi-bank holding companies	53	69	66
One-bank holding companies	64	73	58

This decreasing disclosure trend may have been the result of a decrease in amounts of other real estate in 1978 as compared to prior years.

Another SEC action dealing with other real estate was to rescind SAB No. 5 and recognize the accounting and reporting standards adopted in FASB Statement No. 15, "Accounting for Troubled Debt Restructurings."

Time certificates of deposit

The negotiability of interest rates on certificates of deposit over $100,000 gives rise to deposit fluctuation in some banks. Regulatory authorities monitor those funds by requiring banks to report them separately. Article 9 now requires disclosure of the aggregate amount of certificates of deposit in denominations of $100,000 or more and related interest expense. Disclosure relating to these certificates of deposit was:

	1978	1977
Amount of deposits of $100,000 or more		
Commercial banks	63%	19%
Holding companies	72	17
Related interest expense		
Commercial banks	52	30
Holding companies	55	13

Reporting and Accounting Developments

Public reporting on internal control

As described in our publication "SEC Proposes Public Reporting on Internal Control" (E&W No. 39030), the SEC has proposed that companies publicly report on whether their systems of internal control meet the specified objectives of the Foreign Corrupt Practices Act. Briefly, the law requires all publicly held companies to (1) devise and maintain internal control systems that will provide reasonable assurance that assets are safeguarded and that transactions are properly authorized and recorded as needed for reliable financial statements, and (2) keep reasonably detailed records which accurately and fairly reflect activities.

Ernst & Whinney has developed several publications to assist companies in complying with the provisions of the Act, including the following which are appropriate for banks:

"Evaluating Internal Control: Banking—A Guide for Management and Directors" (E&W No. 38905) —this 72 page Guide, and our supplementary set of documentation forms (E&W 38907), have been developed *specifically for banks*. The Guide describes a practical approach for management's review and evaluation of a bank's system of internal accounting control by dividing a typical commercial bank into six basic operating functions—administration, lending, investment, fiduciary and other services, financial, and operations. The typical control objectives related to the activities of each function are defined, and guidance is provided for using the documentation forms as a convenient means of identiying and evaluating the system procedures.

"Foreign Corrupt Practices Act of 1977—An Overview of the Law and Its Implications" (E&W No. 38748)—this pamphlet analyzes the provisions of the Act. It summarizes the existing responsibilities of management and independent auditors for internal control and explains why a normal audit will not ensure compliance with the Act. Included are our suggestions for management actions—particularly in dealing with the Act's bribery provisions.

"Management Reports in Annual Reports to Shareholders" (E&W No. 38845)—this pamphlet discusses the recommendations of the Commission on Auditors Responsibility (Cohen Commission) and the Financial Executives Institute (FEI) both of which suggested that management reports on internal control and financial statement responsibility should accompany financial statements. It also includes an Ernst & Whinney survey of management reporting in annual reports.

Although we have developed considerable material for assisting our clients in complying with proposed public reporting, we have commented to the SEC that we oppose that proposal because we do not believe that a management report on internal accounting control will help investors to better evaluate management's performance of its stewardship responsibilities, which is the concern expressed by the Commission. It is unlikely that a material misstatement of the financial statements would result from the type of information disclosed by management. We doubt that the benefits to the users of financial statements justify the cost, which we believe would be significant, of presenting the report.

Allowances for losses on real estate loans

During 1978, the AICPA proposed in a draft revision of the AICPA Audit and Accounting Guide for Banks that the interest cost to carry be recognized in determining allowances for losses on both certain real estate and loans and receivables collateralized by real estate. This proposal was opposed by the Association of Bank Holding Companies and other interested parties, including Ernst & Whinney. As a result, the proposed rules for accounting for real estate loan losses do not appear in the draft of the Guide sent to the FASB for issuance approval. Instead, the issues have been submitted separately to the FASB in a paper from the Accounting Standards Division of the AICPA. Basic issues covered are (1) the method to be used in determining allowances for losses, (2) whether the allowances should be based primarily on the collateral's estimated net realizable value, (3) whether such estimated value should take interest holding costs into account, and (4) whether interest holding costs should be determined on the basis of a risk rate or of an entity's average cost of capital.

The paper states that the AICPA Banking Committee is opposed to including interest holding costs in the determination of loss provisions for troubled real estate loans but that the majority (13 to 1) of the Accounting Standards Executive Committee (AcSec) supports including such costs based on an entity's average cost of capital. The only vote against AcSec's support of the proposal was the one cast by an Ernst & Whinney partner.

It is difficult to predict the outcome of this issue. The FASB could elect to add the issue to its agenda of topics requiring a statement of financial accounting standards, or the Board may believe the topic is one of limited application and, accordingly, elect to consider it as part of the present project to reconsider existing AICPA accounting literature. We believe the latter is more likely. In any event, the process of preparing guidance on the issue will be subject to extensive debate and opportunity for public comment.

Accounting for the effects of inflation

In December 1978, the FASB issued an exposure draft which proposed as a supplement to the financial statements disclosure of the effects of changing prices. The proposal was examined by a banking industry task group which consisted of individuals from banking, the financial community, and public accounting. The task group did not propose the exemption of banks from the statement's requirements, but they did recommend certain modifications. The most significant was that since the non-monetary assets and liabilities of banks are generally negligible, all bank assets and liabilities should be considered monetary.

In our comment letter to the FASB we suggested that the Board needed to conduct a more comprehensive study of the effects of inflation and other price changes on financial institutions and, pending such further study, financial institutions should be excluded from the scope of the final statement.

On October 5, 1979, the FASB issued Statement No. 33, "Financial Reporting and Changing Prices." It is effective for fiscal years ended on or after December 25, 1979. However, current cost information for fiscal years ended before December 25, 1980 may be presented in the first annual report for a fiscal year ended on or after December 25, 1980. In the case of financial institutions, banks and bank holding companies with more than $1 billion in assets are included in the statement's reporting requirements.

The statement establishes standards for reporting the effects of "general inflation" and changes in the prices of certain specific types of assets. General inflation is described as a rise in the general level of prices or a decline in the general purchasing power of the dollar. According to the Board, users of financial statements need information about measurements that are made in units having the same general purchasing power because conventional financial statements make no direct allowance for the variability of the monetary unit of measure. Thus the statement requires supplementary disclosure of net income and the purchasing power gain or loss on net monetary items using "constant dollar accounting."

The statement also requires disclosure of supplementary information based on measurement of property, plant, and equipment using "current cost accounting." However, since the amount of those assets is relatively small for banks, the current cost adjustments to depreciation expense would probably be immaterial and under the general materiality provision of the statement no disclosure would be required.

By selecting both constant dollar and current cost measurement, the Board hopes to encourage experimentation and development of new techniques to fit the particular circumstances of each enterprise. In addition, an advisory committee of 16 representatives from specialized industries (including banking) is being organized by the Board to develop illustrative disclosures that might be appropriate for those industries.

Capsule updating of a summary of operations

SEC Staff Accounting Bulletin No. 26 states that condensed or capsule updating of a summary of operations contained in a registration statement filed under the Securities Act of 1933 for monthly or quarterly amounts should include:

Interest income
Net interest income
Provision for loan losses
Income before income taxes and securities gains (losses)
Income before securities gains (losses)
Net income
Earnings per share

We understand the SEC staff also regards those categories as a minimum for presenting quarterly financial data in footnotes to financial statements.

Reporting dividend restrictions of subsidiary banks

Dividend payments by banks are limited by law and regulation, and may require advance approval of regulatory agencies. Now, in SAB No. 26, the SEC staff requests footnote disclosure of how much a bank subsidiary can pay to its parent in dividends without prior regulatory approval.

Limitations on using tax-equivalent adjustments

SAB No. 26 also says the SEC staff will not accept financial statements which include tax-equivalent adjustments, nor a filing which includes these adjustments in the summary of operations. If an annual shareholders' report includes a summary of operations on this basis, it may not be incorporated by reference in an SEC filing, such as Form 10-K. Further, the summary in the filing would have to state that the summary in the annual report did not comply with generally accepted accounting principles. However, the SAB adds, amounts and yields on a tax-equivalent basis may be used in the text and statistical tables in management's discussion and analysis of the summary of operations, but they should be clearly identified, and amounts should be related to the corresponding unadjusted amount in the financial statements. Also, if there are operating losses, the extent of tax reduction, the rates used, and the nature of the tax-equivalent adjustments made should all be described.

Presentation of interest income on a tax-equivalent basis was found in 95% of the holding company reports and 45% of the commercial bank reports included in our survey. The disclosure was usually made in management's discussion and analysis of operations or elsewhere in the report text.

Statistical disclosures in SEC filing

As promised when the Guides where first published, the SEC has requested comments on the quality and desirability of the Guides 61 and 3 statistical disclosures made by bank holding companies in SEC filings. Sought are suggestions for adding, deleting, or simplifying the information called for by the Guides to enhance its utility as well as registrants' comments concerning their experiences in using the Guides. The SEC has advised that the comments will be used to see whether the disclosures made in accordance with the Guides are necessary and approporiate.

Audit and accounting guide for banks

The AICPA has submitted a revised draft of an Audit and Accounting Guide for Banks to the FASB and it is expected to be exposed for public comment during 1980. Among other things, it describes the proper method for valuing trading account securities, accounting for "wash sales," recognizing loan fee income and recording stock dividends. When the Guide is approved, these methods will become generally accepted accounting principles for banks.

More complete discussions of these and other emerging accounting and reporting issues can be found in Ernst & Whinney *Financial Reporting Developments* pamphlets, available from the Ernst & Whinney executive who serves you.

SECTION B

Financial Statements Presented

Financial statements presented

Table 1 reveals that all commercial banks included the statement of changes in financial position in 1978 as compared to 1977 when a few commercial banks omitted the statement.

Table 1. Financial Statements Presented

	Commercial Banks		Multi-bank Holding Companies		One-bank Holding Companies	
	78	77	78	77	78	77
Reports which included:						
Statements of condition, income, shareholders equity and changes in financial position with analysis of the allowance for loan losses in a note	100%	91%	99%	100%	98%	100%
Statements of condition, income, shareholders equity, changes in financial position and allowance for loan losses		2	1		2	
Statements of condition, income, shareholders equity and allowance for loan losses		2				
Other presentations		5				
	100%	100%	100%	100%	100%	100%

Congenerics

For the purpose of this survey, a "congeneric" is defined as a group of two or more related corporate entities of which at least one is the prominent member of the group (alone or in combination with other banking subsidiaries) in terms of revenues and total assets. The operations of a congeneric are devoted primarily to broadly related financial services.

Types of companies held by parents

The number of congenerics increased to 230 from 224 in 1977. Table 2 reflects the activities of the banks and bank holding companies. Mortgage or mortgage servicing, leasing, insurance and finance companies are the leading related fields in which subsidiaries are engaged.

Table 2. Types of Companies Held by Parents

	1978	1977
Percent of congenerics in which parent company held:		
Banks only	11%	12%
Banks and		
Mortgage or mortgage servicing companies	49	45
Leasing companies	39	35
Finance companies	27	27
Data processing services	14	*
Investment advisory companies	16	17
Insurance agency/company	30	25
Small business investment companies	6	3
Factoring companies	6	4
Trust companies	7	6
Other types of companies	49	49
Total number of congenerics:		
Having bank subsidiaries only	25	26
Having bank and/or non-bank subsidiaries	195	198
	230	224

*Information was not accumulated for 1977.

Table 3. Consolidation Policies

	1978	1977
Companies presenting financial statements which were:		
Fully consolidated[1]	98%	91%
Fully consolidated except foreign[2]	1	1
Partially consolidated[3]	1	8
	100%	100%

[1] Fully consolidated—similar accounts of the constituent companies are added and intercompany balances eliminated. The result presents the financial statements as if the companies were a single entity.

[2] Fully consolidated, except foreign—subsidiaries incorporated in the United States are consolidated as above; foreign subsidiaries are recorded on the equity method.

[3] Partially consolidated—banks fully consolidated as in 1 above; some of the non-bank subsidiaries consolidated as in 1 above; other non-bank subsidiaries included as a single-line item either on the equity method or at cost.

Other financial statements

Table 4 presents the percent of holding company reports which disclose parent company financial statements. The increased practice of including parent company financial statements continues. The prevalent method of disclosing parent company financial statements seems to be the use of separate financial statements.

Tables 5 and 6 show the frequency of inclusion of non-bank and banking subsidiary financial statements, respectively, in holding company reports. Rule 4-02(e) of Regulation S-X requires some companies to include separate financial statements for certain consolidated subsidiaries or groups of consolidated subsidiaries in SEC Filings. Also, when certain tests are met, separate financial statements for consolidated subsidiaries engaged in insurance, securities broker-dealer, finance, savings and loan, and banking are required. The SEC's Staff Accounting Bulletin 2 indicates that summarized information based on those financial statements should be included in annual reports to shareholders to meet the proxy requirements and to be acceptable for incorporation by reference in SEC filings. The practice of presenting the non-banking subsidiary financial statements (primarily the balance sheet and income statement) as summarized data in a footnote seems to be the most prevalent method of disclosure. The presentation of partial statements (primarily balance sheets) seems to be the most prevalent method of disclosure utilized for banking subsidiary financial statements.

Table 4. Parent Company Financial Statements

	Multi-bank Holding Companies		One-bank Holding Companies	
	78	77	78	77
Reports which disclosed the parent company financial statements as:				
Separate statements	43%	38%	33%	32%
Partial statements	6	4	2	
Summarized data in a footnote	3	3	3	6
	52	45	38	38
No disclosure made	48	55	62	62
	100%	100%	100%	100%

Table 5. Non-Bank Subsidiary Financial Statements

	Multi-bank Holding Companies		One-bank Holding Companies	
	78	77	78	77
Companies whose reports disclosed non-bank subsidiary financial statements as:				
Separate statements	3%	5%	13%	8%
Partial statements	3		3	1
Summarized data in a footnote	10	13	14	19
Statements for certain subsidiaries only			2	4
	16	18	32	32
No disclosure made	84	82	68	68
	100%	100%	100%	100%

Table 6. Banking Subsidiary Financial Statements

	Multi-bank Holding Companies		One-bank Holding Companies	
	78	77	78	77
Companies whose reports included separate financial statements for banking subsidiaries:				
Separate statements	3%	5%	18%	15%
Partial statements	12	9	32	31
Summarized data in a footnote	2	3	3	4
	17	17	53	50
No disclosure made	83	83	47	50
	100%	100%	100%	100%

Foreign activities and other segment information

FASB Statement No. 14, "Financial Reporting for Segments of a Business Enterprise", requires disclosure of industry segments, foreign operations, export sales and major customers to be included as a part of the complete financial statements. The statement affects the banking industry in the area of reporting on foreign operations (by geographic area, if material), export sales and dependence on one or more major customers. When a business enterprise operates predominantly or exclusively in a single industry the statement requires the identification of that industry. Banking is generally considered as being a single industry.

The disclosures, which are required even if information on industry segments is not, should include:

Revenue, operating income and asset data about significant foreign operations in the aggregate and by significant geographic areas.

The dependence on a single customer(s), the amount of sales to each, and the industry segment(s) making the sales.

The dependence on government sales, the amount of revenue, and the industry segment(s) making the sales.

Article 9 of Regulation S-X which applies to all financial statements included in SEC filings has been revised to require increased disclosure of certain foreign activities including information relating to activities with customers domiciled in foreign countries. In adopting the new rules, which are effective for 1979, the SEC strongly encouraged early compliance, although it recognized that detailed information about foreign activities might not be available for 1978 and prior years.

Information relative to 1978 foreign activities was disclosed by 25% of the commercial banks and multibank holding companies as compared to 11% in 1977 and by 50% of the one bank holding companies as compared to 21% in 1977. Of those including foreign activities information approximately 45% provided data by geographic areas in 1978 compared to 50% in 1977. Less than 1% of the companies surveyed reported export sales, dependence on a single customer, or dependence on government sales. No such disclosures were made in 1977.

Approximately two-thirds of the foreign activities disclosures related to foreign currency assets and liabilities with the remainder dealing primarily with foreign branches and subsidiaries. About one-third of the companies that disclosed foreign activities included disclosures of foreign exchange gains or losses.

The following table reflects the topics most frequently covered in foreign activities disclosures.

Table 7. Topics Covered in Foreign Disclosures

Percent of reports that had foreign disclosures that included:	
Loans	46%
Allowance for loan losses	24
Bank balances outside the U.S.	34
Deposits	39
Other borrowings	19
Revenue	54
Expenses	29
Income before taxes	43
Net income	36
Estimates and assumptions used	32
Method of pricing transfers	15

Foreign activities disclosures were primarily included in the notes to the financial statements as condensed data.

The following table reflects the disclosure of segment information by the survey companies.

Table 8. Reports Identifying Segments (Excludes Foreign)

	Commercial Banks		Multi-bank Holding Companies		One-bank Holding Companies	
	78	77	78	77	78	77
No segments identified	91%	88%	87%	75%	81%	76%
Single industry identified—banking	8	10	11	22	19	23
Banking and other segment identified	2	2	2	3		1
	100%	100%	100%	100%	100%	100%

There were three companies which identified banking and another segment as compared to five in 1977. The segments identified in both years were mortgage banking, consumer finance, and title insurance.

Form 10-K

Of the companies included in the survey 9% of the multi-bank holding companies (eleven companies) and 5% of the one-bank holding companies (three companies) included their Form 10-K in their annual report to shareholders.

Audit status

Table 9 indicates the audit status of the survey companies.

Table 9. Audit Status

	Commercial Banks		Multi-bank Holding Companies		One-bank Holding Companies	
	78	77	78	77	78	77
Reports in which the financial statements were:						
Audited and the accountants' report was:						
Unqualified	87%	69%	94%	92%	90%	89%
Subject to—litigation		2	3	5	2	7
Subject to—other	1	2	1	1	3	2
Qualified—consistency			2	2	5	
Other qualifications	5	5				2
	93	78	100	100	100	100
Unaudited	7	22				
	100%	100%	100%	100%	100%	100%

Management reports

A "management report" is issued by management to affirm its responsibility for the financial statements. It may also include comments on related subjects such as the adequacy of internal controls and the roles of the audit committee and of the independent and internal auditors.

The inclusion of management reports in annual reports to shareholders arises from recommendations of the Committee on Auditors Responsibility (Cohen Commission) and the Financial Executives Institute (FEI). It is anticipated that the number of companies issuing such reports will increase (although the format may be modified) because the SEC has proposed that companies publicly report in 1979 on whether their system of internal control meets the specified objectives of the Foreign Corrupt Practices Act of 1977.

Table 10 indicates the percentage of survey companies that included management reports on internal control and/or financial statement responsibility. The annual shareholders' report of three holding companies included a report on the adequacy of internal accounting control which was issued by their independent accountants.

Table 10. Management Reports*

	Commercial Banks	Multi-bank Holding Companies	One-bank Holding Companies
Percentage of companies that included management reports on:			
Financial statement responsibility which included comments on internal control	8%	11%	8%
Financial statement responsibility only		2	1
	8	13	9
No report	92	87	91
	100%	100%	100%

*Information was not accumulated for 1977

EXAMPLES Disclosure of parent company financial statements as summarized data in a separate note to financial statements

HARTFORD NATIONAL CORPORATION

The condensed financial statements of the Corporation (parent company only) are as follows:

	December 31	
	1978	1977
	(000's omitted)	
Condensed Balance Sheet		
Assets		
Cash	$ 113	$ 98
Dividend receivable from Bank	1,438	1,294
Investments in and advances to consolidated subsidiaries (equity basis):		
Bank	102,969	98,861
Realty	18,957	31,245
Other subsidiaries	2,948	2,940
Other assets	2,615	873
	$129,040	$135,311
Liabilities		
Borrowings under revolving credit agreement	$ 28,300	$ 42,500
Dividend payable	840	700
Other liabilities	872	261
	30,012	43,461
Sinking fund debentures 8-1/2% due May 15, 1996	20,000	20,000
Total Liabilities	50,012	63,461
Shareholders' Equity	79,028	71,850
	$129,040	$135,311

Condensed Statement of Changes in Financial Position

	Year Ended December 31	
	1978	1977
Resources were provided by		
Operations		
Net income	$ 10,257	$ 5,024
Equity in net (income) loss of subsidiaries in excess of dividends received	(5,353)	4
	4,904	5,028
Decrease (increase) in		
Cash	(15)	841
Investment in and advances to subsidiaries	13,525	8,143
Other, net	751	290
	$ 19,165	$ 14,302
Resources were used for		
Decrease in short-term borrowings	$ 14,200	$ 11,500
Cash dividends declared	3,079	2,802
Other, net	1,886	-
	$ 19,165	$ 14,302

Condensed Statement Of Income

	Year Ended December 31	
	1978	1977
	(000's omitted)	
Dividends from Bank	$ 5,464	$ 5,177
Interest from Realty	4,620	5,359
Other income	318	286
	10,402	10,822
Expense		
Interest on short-term borrowings	3,482	3,421
Interest on long-term borrowings	1,700	1,700
Compensation	277	235
Other expense	651	599
	6,110	5,955
Income before income taxes, equity in undistributed income (loss) of subsidiaries and undistributed extraordinary credit of Realty	4,292	4,867
Applicable income tax benefits	(625)	(166)
Income before equity in undistributed income (loss) of subsidiaries and undistributed extraordinary credit of Realty	4,917	5,033
Equity in undistributed income (loss) of subsidiaries		
Bank	4,108	2,763
Realty	(2,479)	(4,347)
Other subsidiaries	24	31
	1,653	(1,553)
Income before undistributed extraordinary credit of Realty	6,570	3,480
Equity in undistributed extraordinary credit of Realty	3,687	1,544
Net income	$ 10,257	$ 5,024

These condensed financial statements should be read in conjunction with the notes to the consolidated financial statements.

FIRST BANC GROUP OF OHIO, INC.

Following are summarized balance sheet and related statements of income and changes in financial position of First Banc Group of Ohio, Inc. (Parent Company Only):

Balance Sheet

	December 31	
	1978	1977
Assets:		
Cash	$ 828,227	$ 355,456
Investment in securities of affiliates, at equity	170,365,176	154,040,375
Amounts due from affiliates	3,770,000	3,670,000
Participations in loans of affiliates	18,500,000	18,500,000
Other security investments, at cost, net of valuation allowance of $367,680 in 1978 and $1,057,000 in 1977	4,920,584	3,642,431
Deferred debt expense, net of accumulated amortization of $362,049 in 1978 and $298,065 in 1977	200,546	264,530
Excess of cost over net assets of affiliates purchased, net of accumulated amortization of $514,496 in 1978 and $388,316 in 1977	4,531,264	4,657,444
Other assets	2,808,520	2,944,588
Total Assets	$205,924,317	$188,074,824
Liabilities:		
7% notes payable, due January 15, 1980	$ 15,000,000	$ 15,000,000
9% notes payable	25,000,000	25,000,000
Accrued interest payable and other liabilities	1,801,993	$ 1,571,510
Total Liabilities	$ 41,801,993	$ 41,571,510
Shareholders' Equity:		
Preferred stock, 200,000 shares authorized, none issued		
Common stock, no par value, $5 stated value, 10,000,000 shares authorized; 6,300,389 shares issued and outstanding	$ 31,501,945	$ 31,501,945
Capital in excess of aggregate stated value of common stock	79,521,362	79,521,362
Undivided profits	53,099,017	35,480,007
Total Shareholders' Equity	164,122,324	146,503,314
Total Liabilities And Shareholders' Equity	$205,924,317	$188,074,824

Statement of Income

	Years Ended December 31	
	1978	1977
Income:		
Dividends from affiliates	$ 10,013,291	$ 9,104,011
Management fee, affiliates	3,330,400	2,451,921
Income from other security investments	246,733	263,985
Interest		
Affiliates	285,751	262,480
Other	1,874,882	1,090,156
	15,751,057	13,172,553
Expenses:		
Interest	3,384,385	3,001,702
Other	4,314,286	3,412,317
	7,698,671	6,414,019
Income before federal income tax credit, equity in undistributed earnings of affiliates and security losses	8,052,386	6,758,534
Federal income tax credit	976,600	1,151,300
Income before equity in undistributed earnings of affiliates and security loss	9,028,986	7,909,834
Equity in undistributed earnings of affiliates before loss on sale of securities	17,137,564	14,365,881
Income before loss on sale of securities	26,166,550	22,275,715
Loss on sale of securities including equity in loss on sale of securities by affiliates	(655,707)	(98,213)
Net Income	$ 25,510,843	$ 22,177,502

Statement of Changes in Financial Position, Years Ended December 31, 1978 and 1977

Sources of Funds:	1978	1977
Operations:		
Net income	$ 25,510,843	$ 22,177,502
Charges and credits included in operations not affecting funds during the current year:		
Equity in undistributed net income of affiliates	(16,697,670)	(14,406,968)
Depreciation and amortization	267,379	224,123
Total From Operations	9,080,552	7,994,657
Proceeds from sale of notes payable		12,500,000
Decrease in U.S. Government obligations		6,894,326
	$ 9,080,552	$ 27,388,983

	December 31	
	1978	1977
Applications of Funds:		
Cash dividends paid	$ 8,568,529	$ 7,617,743
Increase in loan participations purchased		18,500,000
Increase in investment securities	589,153	
Increase in investment in and amounts due from subsidiaries	170,000	405,000
Other, net	(719,901)	812,629
Increase in cash	472,771	53,611
	$ 9,080,552	$ 27,388,983

EXAMPLES Disclosure of non-bank subsidiary financial statements as summarized data in a separate note to financial statements

UNITED BANKS OF COLORADO, INC.

The condensed balance sheets and statements of operations of United Mortgage Company, a wholly-owned subsidiary of the Company, for the years ended December 31, 1978 and 1977 are as follows:

United Mortgage Company
Statements of Condition

	December 31	
	1978 (In Thousands)	1977
Assets		
Real Estate Loans	$31,676	$19,569
Less Allowance for Loan Losses	148	-
Real Estate Loans, Net	31,528	19,569
Real Estate Acquired Through Foreclosure, Net of Allowance for Losses of $132 in 1978 and $334 in 1977	1,763	2,012
Other Assets	1,773	1,144
Total Assets	$35,064	$22,725
Liabilities and Shareholder's Equity		
Short-Term Borrowings ($24,476 in 1978 and $19,796 in 1977 From Parent)	$33,051	$20,580
Other Liabilities	830	1,100
Total Liabilities	33,881	21,680
Shareholder's Equity	1,183	1,045
Total Liabilities And Shareholder's Equity	$35,064	$22,725

United Mortgage Company
Statements Of Income

	Years Ended December 31	
	1978 (In Thousands)	1977
Interest Margin		
Interest Income	$ 2,505	$ 2,000
Interest Expense	2,045	1,491
Interest Margin Before Provision for Loan Losses	460	509
Provision for Loan Losses	43	10
Interest Margin After Provision for Loan Losses	417	499
Non-Interest Income		
Loan Administration and Origination	2,730	2,434
Gain (Loss) on Sale of Loans and Loan Servicing	(18)	412
Other Income	44	60
Total Non-Interest Income	2,756	2,906
Non-Interest Expense		
Salaries and Employee Benefits	1,651	1,822
Other Expense	1,256	1,260
Total Non-Interest Expense	2,907	3,082
Net Non-Interest Expense	151	176
Net Income Before Taxes	266	323
Income Tax Provision	128	156
Net Income	$ 138	$ 167

HERITAGE BANCORPORATION

Heritage Mortgage Finance Company is included in the consolidated financial statements of the Company. The following is a condensed balance sheet and statement of income for this company.

	Condensed Balance Sheet ($000 omitted) December 31	
	1978	1977
Assets		
Cash	$ 275	$ 4
Loans, net of reserve	19,776	18,463
Other assets	3,006	5,524
Total Assets	$23,057	$23,991
Liabilities and stockholders' equity		
Notes payable	$21,101	$22,454
Other liabilities	757	465
Stockholders' equity	1,199	1,072
Total Liabilities And Stockholders' Equity	$23,057	$23,991

	Condensed Statement of Income ($000 omitted)	
	1978	1977*
Operating income	$ 2,049	$ 1,899
Operating expenses	1,803	1,609
Income before income taxes	246	290
Provision for income tax	119	130
Net income	$ 127	$ 160

*Reclassified for comparative purposes.

FIRST AMTENN CORPORATION

Non-bank subsidiaries

First Amtenn Corporation's non-bank subsidiaries are Atlantic Discount Company, Inc., a consumer finance company based in Jacksonville, Florida; First Amtenn Financial Corporation, an inventory and accounts receivable financing company based in Nashville, Tennessee; and Lee, Robinson & Steine, Inc., an investment advisory company based in Nashville, Tennessee.

The following summarized combined financial data for the non-bank subsidiaries includes the total revenue and net income data for First Amtenn Leasing Corporation, a former non-bank subsidiary, which was liquidated during 1977.

	1978	1977
	(In Thousands)	
Total assets	$42,836	$37,932
Advances from parent	26,768	24,049
Shareholders' equity	6,219	5,932
Total revenue	8,953	8,159
Net income	442	408

EXAMPLES Disclosure of banking subsidiary financial statements as summarized data in a separate note to financial statements

CITIZENS AND SOUTHERN CORPORATION
(Excerpt from note to the financial statements)

Summary of certain financial information

Bank Subsidiary

	1978	1977
Assets:		
Cash and due from banks	$127,127	$121,578
Investment and trading account securities	180,090	179,899
Federal funds sold, etc.	59,900	49,450
Loans--net	437,406	377,816
Lease financing	4,326	3,033
Property and equipment	22,530	18,726
Other assets	10,693	8,944
	$842,072	$759,446
Liabilities		
Deposits	$672,910	$640,634
Federal funds purchased and other borrowings	107,720	62,611
Other liabilities	56,848	52,186
Stockholders' equity	4,594	4,015
	$842,072	$759,446

	1978	1977
Revenues		
Interest and fees on loans	$ 43,640	$ 33,851
Interest and dividends on investment securities and trading account interest	10,587	9,942
Lease financing	514	305
Other	10,484	8,605
	65,225	52,703
Expenses		
Salaries, wages, and other employee benefits	18,034	15,137
Interest on deposits	12,789	14,771
Income taxes	1,768	826
Other (including securities gains and losses, net of tax, of ($16) in 1978 and $7 in 1977)	25,057	15,694
	57,648	46,428
Net Income	$ 7,577	$ 6,275
Source of Funds		
From operations	$ 11,536	$ 9,561
Increase in deposits	32,276	89,058
Increase in federal funds purchased and other borrowings	45,109	11,380
Increase in other liabilities	713	377
	$ 89,634	$110,376
Application of Funds		
Increase in securities	$ 191	$ 9,831
Increase in loans before net charge-offs	61,399	52,009
Additions to property and equipment	3,804	3,391
Increase in other assets	4,034	792
Increase in cash and due from banks	5,549	26,655
Increase in federal funds sold	10,450	13,450
Increasing in lease financing	1,293	1,618
Cash dividends paid to parent company	2,914	2,630
	$ 89,634	$110,376

INDUSTRIAL NATIONAL CORPORATION

Summarized Financial Information: Presented below is summarized financial information of the banking subsidiary with its subsidiaries and the non-bank financing subsidiaries of the Company.

	1978		1977	
	(000 omitted)		(000 omitted)	
	Banking (a) Subsidiary	Financing (b) Subsidiaries	Banking (a) Subsidiary	Financing (b) Subsidiaries
Total assets	$2,469,086	$332,770	$2,192,722	$274,644
Total liabilities	2,333,928	302,361	2,065,884	239,163
Total stockholders' equity	$ 136,158	$ 30,409	$ 126,838	$ 35,481
Interest income	$ 174,878	$ 40,398	$ 134,256	$ 32,229
Interest expense	114,198	16,524	77,834	11,080
Net interest income	60,680	23,874	56,422	21,149
Provision for losses	5,120	8,984	6,168	8,964
Earnings margin	55,560	14,890	50,254	12,185
Non-interest income	13,325	19,887	12,782	20,036
	68,885	34,777	63,036	32,221
Overhead expenses	51,653	23,643	45,608	21,584
Income before income taxes	17,232	11,134	17,428	10,637
Provision for income taxes	1,388	5,881	3,574	5,297
Income before securities transactions and extraordinary gains	15,844	5,253	13,854	5,340
Securities transactions, net of income taxes	(397)	-	162	-
Income before extraordinary gains	15,447	5,253	14,016	5,340
Extraordinary gains--tax benefits of prior year losses	-	16	-	-
Net income (c)	$ 15,447	$ 5,269	$ 14,016	$ 5,340

(a) Includes the following subsidiaries: Industrial National Bank, Industrial International Bank, Inleasing, International Appraisal, C-O-M Service Bureau, and Industrial Capital.

(b) Includes the following subsidiaries: Southern Discount, Ambassador Factors, Mortgage Associates, Kensington, Westminster Properties, Industrial National Mortgage, and Industrial Investment.

(c) The Banking subsidiary would have been allowed to pay $27,803,000 in dividends to the parent company without prior approval from a regulatory agency. The Banking subsidiary actually paid $6,469,000 in dividends to the parent during 1978.

THIRD NATIONAL CORPORATION

Summary Financial Information of Banking Affiliates

	December 31, 1978				
($ Millions)	Banking Locations	Assets	Loans	Deposits	Stockholders' Equity
Third National Bank in Nashville	30	$1,219	$728	$1,011	$79
Bank of Knoxville	8	124	69	114	9
The First National Bank of Lawrenceburg	3	47	27	43	4
The Union Bank	3	53	32	47	4
Bank of Sevierville	3	46	29	40	5
Merchants Bank	6	64	39	56	7
Citizens Bank	4	22	15	19	2
Bank of Obion County	1	8	5	7	1

EXAMPLES Foreign activities footnote

CITICORP

Geographic Distribution of Revenue, Earnings and Assets

Citicorp attributes its net interest and other operating revenue, income before taxes and securities gains (losses), income before securities gains (losses) and average total assets to overseas and domestic operations based on the domicile of the customer. U.S. possessions are included as overseas. Because of the integration of overseas and domestic activities, it is not practicable to make a precise separation, and various assumptions must be made in arriving at allocations and adjustments to be used in presenting this data.

The principal allocations and adjustments are: (1) charges for all funds employed that are not generated locally, calculated on the amount and nature of the assets and based on a marginal cost of funds concept; Citicorp stockholders' equity is treated as generated domestically; (2) allocation of expenses incurred by one area on behalf of another, including administrative costs, based on methods intended to reflect services provided; (3) adjustments for the difference between local and U.S. tax rates; and (4) allocation of the difference between actual net loan losses and loan loss expense. In 1978 and 1977, net interest and other operating revenue, income before taxes and securities gains (losses), income before securities gains (losses) and average total assets attributed to the United Kingdom were $137 million and $123 million, $60 million and $74 million, $38 million and $42 million and $9,424 million and $7,102 million, respectively. Such amounts attributed to Brazil were $208 million and $199 million, $146 million and $137 million, $70 million and $74 million and $3,453 million and $2,878 million, respectively. No other overseas country accounted for more than 10% of net interest and other operating revenue, income before taxes and securities gains (losses), income before securities gains (losses) or average total assets as shown in the table.

The Securities and Exchange Commission has issued a rule requiring that an allowance for loan losses applicable to loans related to foreign activities be disclosed in a note to the financial statements. Citicorp makes no such allocation, and no portion of the reserve for possible losses on commercial loans or allowance for consumer credit losses is in any way allocated or restricted to any individual loans or groups of loans. For the purpose of meeting the requirement under generally accepted accounting principles to calculate earnings and assets attributable to foreign operations, $143 million at December 31, 1978 and $99 million at December 31, 1977 of such reserve and allowance was allocated to foreign operations. Such allocation is not, in the judgment of management, meaningful since the entire amount of the reserve and allowance is available to absorb losses with respect to both domestic and overseas commercial and consumer loans, respectively.

Geographic Distribution of Revenue, Earnings and Assets

	Net Interest and Other Operating Revenue		Income before Taxes and Securities Gains (Losses)		Income Before Securities Gains (Losses)		Average Total Assets	
	1978	1977	1978	1977	1978	1977	1978	1977
	In Millions							
United States	$1,287	$ 950	$182(1)	$ 31(1)	$136	$ 68	$28,021	$26,840
Asia-Pacific	261	209	78	53	44	28	8,468	7,165
Canada and Caribbean	250	215	74	61	47	44	7,887	7,552
Europe	711	529	213	172	114	96	23,849	18,432
South America	298	286	183	180	88	104	5,457	4,664
South Asia, Middle East and Africa	188	152	97	75	53	41	5,270	3,735
	$2,995	$2,341	$827	$572	$482(2)	$381(2)	$78,952	$68,388

(1) In the United States, income before taxes and securities gains (losses) includes approximately $75.0 million in 1978 and $81.5 million in 1977 of tax exempt interest income, reducing the federal income tax provision and increasing the federal income tax benefit, respectively, attributed to domestic operations.

(2) Securities gains (losses) of $(11.7) million in 1978 and $(7.0) million in 1977 after tax effects, which are deducted in arriving at net income, are substantially attributable to the United States.

OTHER OVERSEAS INFORMATION

	1978	1977
	(In Millions at Year End)	
Cash and Deposits at Interest in Overseas Offices		
Cash and due from banks	$ 2,120	$ 1,138
Deposits at interest with banks	11,697	12,006
	$13,817	$13,144
Deposit Liabilities in Overseas Offices		
Banks	$19,493	$17,905
Other demand deposits	5,534	4,645
Other time and savings deposits	16,782	13,958
	$41,809	$36,508
Borrowings in Overseas Offices		
Purchased funds and other borrowings	$ 3,403	$ 2,159
Intermediate-term debt	1,090	960
Long-term debt	120	-
	$ 4,613	$ 3,119

J.P. MORGAN & CO., INCORPORATED

U.S.-related and foreign-country-related operations

For reporting purposes, operations of J.P. Morgan & Co. are required to be divided into components identified, respectively, as "U.S.-related" and "foreign-country-related."

Differences from previous division

The division, as presented in this note for both 1978 and 1977, differs in important respects from the division into "domestic" and "international" components presented in previous annual reports. The principal differences, occasioned by revisions in reporting rules of the Securities and Exchange Commission, are in the basis used for apportioning the provision for possible credit losses and in the basis used for distributing guaranteed loans and customers' acceptance liability.

Assets

Interest-bearing deposits at banks are distributed according to the location of the office of deposit.

In previous reports, guaranteed loans and customers' acceptance liability were distributed according to the location of the guarantor; in this note all loans and customers' acceptance liability, including those guaranteed, are distributed according to the location of the borrower.

At December 31, 1978, U.S.-related assets were $17.2 billion, or 44.7% of total assets, and foreign-country-related assets were $21.3 billion, or 55.3% of total assets. At December 31, 1977, U.S.-related assets were $15.0 billion, or 47.3% of total assets, and foreign-country-related assets were $16.7 billion, or 52.7% of total assets.

The composition of foreign-country-related assets at December 31 was as follows:

	In millions	
	1978	1977
Interest-bearing deposits at banks		
At overseas branches or subsidiaries of U.S. banks	$ 1,396	$ 1,456
At other banks	5,767	4,168
Loans		
To banks	2,361	1,327
To governments, government agencies, central banks, and official and international institutions	1,598	1,672
Other, substantially all to businesses	7,576	6,513
Customers' acceptance liability	1,188	571
Other assets	1,409	988
Total Foreign-Country-Related Assets	$21,295	$16,695

Foreign-country-related assets at December 31 were distributed among geographic regions as follows:

	Dollars in millions			
	1978		1977	
Continental Europe	$ 7,533	35.4%	$ 6,234	37.3%
United Kingdom and Ireland	5,603	26.3	4,281	25.6
Western Hemisphere, excluding United States	3,820	17.9	3,466	20.8
Pacific, Far East, and South Asia	3,116	14.6	2,035	12.2
Middle East and Africa	1,223	5.8	679	4.1
	$21,295	100.0%	$16,695	100.0%

The only countries which accounted for 5% or more of total assets at December 31 were the United Kingdom (14.3%) and France (5.4%) in 1978 and the United Kingdom (13.2%) and France (5.5%) in 1977.

Deposits and borrowings

Deposits are distributed according to the location of the depositor. Borrowings are distributed according to the location of the lender. Foreign-country-related deposits and borrowings at December 31 were as follows:

	In millions	
	1978	1977
Deposits		
From banks	$ 7,359	$ 4,541
From governments, government agencies, central banks, and official and international institutions	3,823	5,392
Other		
Demand	1,038	988
Time	3,554	2,600
Total Foreign-Country-Related Deposits	$15,774	$13,521
Borrowings		
Short-term	$ 1,822	$ 782
Long-term	90	60

At December 31, 1978 foreign-country-related deposits in offices in the U.S. totaled $2.3 billion. At December 31, 1977 they totaled $2.5 billion.

At December 31, 1978 foreign-country-related deposits and borrowings were 52.1% of total deposits and borrowings. At December 31, 1977 they were 51.0%.

Allowance for possible credit losses

In the division of the allowance for possible credit losses into U.S.-related and foreign-country-related portions, that part of the allowance which has been allocated to provide for potential losses relating to specific loans and lease financing is divided on the basis of the locations of the borrowers involved while the remainder is divided into U.S.-related and foreign-country-related portions in the same proportion as are average total loans and lease financing.

Presentation of this required division does not imply that management has made a judgment as to the adequacy of the portion of the allowance characterized as U.S.-related to absorb probable losses on U.S.-related loans and lease financing or as to the adequacy of the portion characterized as foreign-country-related to absorb probable losses on foreign-country-related loans and lease financing. Management's judgment as to the adequacy of the allowance is based on the size of the allowance as a whole in relation to probable losses on all loans and lease financing.

An analysis of the allowance, divided into U.S.-related and foreign-country-related portions, follows:

	In millions					
	U.S.-related		Foreign-country-related		Total	
	1978	1977	1978	1977	1978	1977
Balance, January 1	$92.3	$113.1	$59.2	$37.1	$151.5	$150.2
Recoveries	11.0	4.5	2.0	0.2	13.0	4.7
Charge-offs	(14.3)	(33.8)	(2.6)	(6.1)	(16.9)	(39.9)
Net charge-offs	(3.3)	(29.3)	(0.6)	(5.9)	(3.9)	(35.2)
Provision	(0.2)	19.6	33.8	28.0	33.6	47.6
Translation adjustment	-	-	(0.1)	-	(0.1)	-
Transfer to reduce "other real estate"	-	(11.1)	-	-	-	(11.1)
Balance, December 31	$88.8	$ 92.3	$92.3	$59.2	$181.1	$151.5

Income and expenses
Because the operations of J.P. Morgan & Co. are highly integrated, an identification of income and expenses as U.S.-related or foreign-country-related necessarily involves estimates and assumptions. In general, interest income is distributed according to the distribution of the assets on which the income is earned and other income is distributed according to the location of the office at which it is earned. The cost of funds, adjusted for the use of capital, is allocated on the basis of the amount and nature of the assets characterized, respectively, as U.S.-related and foreign-country-related. The cost of funds transferred between offices is charged to the using office at the market rate. Allocations are made of expenses incurred in one component of operations on behalf of the other, and adjustments are made for differences between U.S. and foreign-country income tax rates. In previous reports, the provision for possible credit losses was apportioned on the basis of net charge-offs; in this note it is apportioned on the basis of changes in the respective portions of the allowance for possible credit losses characterized as U.S.-related and foreign-country-related.

On the basis described above, the respective contributions of U.S.-related and foreign-country-related operations to results of J.P. Morgan & Co. in 1978 and 1977 are estimated as follows:

	In millions U.S.-related operations		Foreign-country-related operations		Total	
	1978	1977	1978	1977	1978	1977
Contribution to:						
Total operating income	$954.3	$810.5	$1,493.4	$1,086.1	$2,447.7	$1,896.6
Total operating expenses	789.5	656.5	1,237.9	880.1	2,027.4	1,536.6
Income before income taxes and securities gains(losses)	164.8	154.0	255.5	206.0	420.3	360.0
Applicable income taxes	33.5	40.4	119.9	101.3	153.4	141.7
Income before securities gains (losses)	131.3	113.6	135.6	104.7	266.9	218.3

Foreign-country-related operations contributed 61.0% of total operating income in 1978 and 57.3% in 1977, 60.8% of income before income taxes and securities gains (losses) in 1978 and 57.2% in 1977, and 50.8% of income before securities gains (losses) in 1978 and 48.0% in 1977.

For the purpose of attribution of income and expenses to individual countries, net earnings (interest income less interest expense) from loans and interest-bearing deposits at banks are attributed on the basis of estimates of interest-rate spreads applicable in the respective countries. This and other approximations and allocations have been used in constructing the following regional distribution of the contribution of foreign-country-related operations to results of J.P. Morgan & Co.:

	In millions Total operating income		Income before income taxes and securities gains (losses)		Income before securities gains (losses)	
	1978	1977	1978	1977	1978	1977
Continental Europe	$ 542.0	$ 381.2	$ 86.6	$ 68.5	$ 45.6	$ 34.8
United Kingdom and Ireland	392.4	298.8	58.0	49.9	30.7	25.4
Western Hemisphere, excluding United States	295.6	240.5	62.1	50.0	33.5	25.4
Pacific, Far East, and South Asia	180.8	117.3	31.8	26.9	16.8	13.7
Middle East and Africa	82.6	48.3	17.0	10.7	9.0	5.4
	$1,493.4	$1,086.1	$255.5	$206.0	$135.6	$104.7

The only foreign countries estimated to have accounted for 5% or more of total operating income in 1978 were the United Kingdom (15.8%) and France (6.6%) and in 1977 were the United Kingdom (15.5%) and France (5.7%). The United Kingdom accounted for 13.4% of income before income taxes and securities gains (losses) in 1978 and 13.5% in 1977. France accounted for 6.6% of income before income taxes and securities gains (losses) in 1978 and 4.5% in 1977.

MARINE MIDLAND BANKS, INC.

International Operations

International banking activities are conducted by the Bank through overseas branches and subsidiaries and through the lending, foreign exchange, and other service activities provided by its international banking, corporate banking and ~~money~~ management divisions.

Under new reporting requirements of the Securities and Exchange Commission, international activities are defined as those conducted with non-U.S. domiciled customers. This will differ somewhat from information reported in previous years. 1977 figures have been restated to conform to 1978 classifications.

The following tables display the Bank's international assets consisting of loans, deposits placed with banks and other revenue producing assets, primarily with customers domiciled outside the United States, and liabilities by type, an analysis of the reserve for loan losses attributable to international operations and a geographic distribution of international earnings.

International Assets By Geographic Distribution and Domestic Assets

	December 31 1978 (in thousands)	1977*
Identifiable assets		
International:		
Europe	$ 2,063,876	$ 1,639,971
Far East/Pacific	975,732	809,682
Other Western Hemisphere	1,666,426	1,094,385
Middle East/Africa	299,481	189,708
United States	130,521	112,273
Less: reserve for loan losses	(20,000)	(14,000)
Total international	5,116,036	3,832,019
Domestic	9,173,335	8,305,165
Total domestic/international	$14,289,371	$12,137,184

*Restated to conform to 1978 classifications.

In the above table international loans are distributed geographically primarily on the basis of the location of the head office or residence of the borrowers or, in the case of certain guaranteed loans, the guarantors. Interest bearing deposits with banks are grouped by the location of the office of the bank accepting the deposit. Investments and acceptances are distributed on the basis of the location of the issuers or borrowers.

Total International Assets by Principal Asset Type

	December 31, 1978 (in thousands)	1977
Deposits in foreign banks:		
Interest bearing	$2,004,788	$1,185,410
Non-interest bearing	37,528	31,662
Trading securities	5,643	-
Investments in foreign issues	84,258	60,339
Loans to foreign customers:		
Bank and bank guaranteed	806,816	693,919
Other financial institutions	139,036	121,607
Government and official institutions	885,105	541,475
Commercial and industrial:		
Shipping	339,738	373,975
Other commercial and industrial	404,624	510,199
Real estate	90,136	115,926
Other	7,495	3,972
	2,672,950	2,361,073
Less: reserve for loan losses	(20,000)	(14,000)
Total loans, net	2,652,950	2,347,073
Acceptances	202,065	126,120
Other assets	128,804	81,415
Total international assets	$5,116,036	$3,832,019

Total International Liabilities by Principal Liability Type

	December 31, 1978 (in thousands)	1977*
Deposits:		
Banks in foreign countries	$2,302,175	$1,713,536
Foreign government and other institutions	830,412	543,658
Other foreign demand deposits	66,332	**
Other foreign time and savings	432,670	505,249
Total deposits from foreign sources	3,631,589	2,762,443
Other borrowings:		
Short term	49,182	46,637
Bonds, mortgages and other similar debt	126,296	30,424
Acceptances	202,065	126,120
Other liabilities	76,898	57,890
Total international liabilities	$4,086,030	$3,023,514

*Restated to conform to 1978 classifications.

**Detail of other foreign demand deposits from other foreign time and savings not available.

International liabilities include deposits and other liabilities of foreign domiciled customers in the Bank's overseas branches and Edge Act corporations and the foreign customer deposits and other liabilities of the Bank's international banking department.

Reserve for Loan Losses Attributable to International Operations

	December 31,	
	1978	1977
	(in thousands)	
Balance at beginning of year	$14,000	$12,000
Provision charged to income	9,789	7,069
Transferred from unallocated loan loss reserve	12,949	3,614
Recoveries on loans charged off	389	106
Loans charged off	(17,127)	(8,789)
Balance at end of year	$20,000	$14,000

The Bank must, under new reporting requirements of the Securities and Exchange Commission, allocate a portion of the total reserve for loan losses to international operations. Since there is no finite method of making such an allocation, estimates have been made based on a number of factors including loan loss experience and recent examination reports. The same criteria is used for the required allocation to domestic loan categories resulting in a part of the reserve being designated as unallocated. Portions of the unallocated may be transferred to or from any of the designated categories as required or deemed appropriate. Additionally a provision for loan losses for international operations has been estimated based on actual net loan charge-off experience in the most recent applicable three year period.

Revenues and Earnings--International

	Year Ended December 31,							
	Total Operating Income		Income (Loss) Before Taxes & Securities Gains/ Losses		Income (Loss) Before Securities Gains/ Losses		Net Income (Loss)	
	1978	1977	1978	1977	1978	1977**	1978	1977**
	(in thousands)							
International:								
Europe	$ 136,868	$ 85,701	$(1,104)	$(4,694)	$ (507)	$(1,740)	$ (507)	$(1,857)
Far East/Pacific	69,713	57,451	1,436	4,453	660	1,651	660	1,748
Other Western Hemisphere	119,291	69,287	6,890	5,983	3,161	2,217	3,161	2,190
Middle East/Africa	20,168	9,632	1,996	770	916	285	916	285
United States	19,963	16,129	4,645	4,351	2,110	1,592	2,132	1,592
Total international	366,003	238,200	13,863	10,863	6,340	4,005	6,362	3,958
Domestic	641,847	518,834*	25,786	9,770	18,172	13,413	22,055	15,863
Total domestic/ international	$1,007,850	$757,034	$39,649	$20,633	$24,512	$17,418	$28,417	$19,821

*Restated to conform to 1978 classifications.
**Restated to distribute the international tax provision on the same basis as 1978.

Included in consolidated other income are foreign exchange gains of $6,546,000 and $3,936,000 for 1978 and 1977, respectively.

Total international expenses including various allocations described below were $352,140,000 for 1978 and $227,337,000 for 1977.

Total operating income consists of total interest income and other operating income. Interest and fee-related income on international assets is distributed geographically on the same basis as the related asset. Other international operating income which consists primarily of foreign exchange and service fee income is distributed to the geographic area where the service or operation is being performed.

In order to arrive at income before taxes and security gains, income before security gains and net income by geographic areas, various allocations, some of which are subjective by necessity, have been made. In addition to estimating a provision for loan losses, which was discussed in a previous table, allocation of indirect expenses and administrative overhead are made between areas to best reflect services provided and a charge or credit is made at market rates for use of funds. Taxes are estimated for international operations and are allocated geographically in proportion to income before taxes.

MELLON NATIONAL CORPORATION

International Operations

The Corporation engages in international banking and finance activities through the International Department of Mellon Bank, N.A., Foreign Branches and Edge Act subsidiaries.

Selected financial data for international operations for 1978 and 1977 are as follows:

	Year Ended December 31,	
	1978 (in millions)	1977
Statement of Income Data:		
Interest Income	$211	$169
Interest Expense	162	125
Provision for Possible Credit Losses on Loans	4	5
Non-Interest Income	17	12
Non-Interest Expense	27	21
Income Before Income Taxes and Securities Transactions	35	30
Income Before Securities Transactions	19	16
Net Income	19	16

	December 31,	
	1978 (in millions)	1977
Statement of Condition Data:		
Total Assets	$3,807	$3,081
Money Market Investments:		
Interest-Bearing Deposits with Banks	1,230	946
Other, Principally Corporate Placements	170	106
Loans, Net of Unearned Discount	1,520	1,433
Customers' Acceptance Liability	603	373
Demand and Time Deposits	2,379	1,942
Composition of Loans and Deposits:		
Loans, Net of Unearned Discount:		
Commercial and Industrial	$ 763	$ 827
Financial Institutions	564	396
Governments and Other Official Institutions	188	207
Other	5	3
Total	$1,520	$1,433
Deposits:		
Demand:		
Banks in Foreign Countries*	$ 165	$ 157
Foreign Governments, Official Institutions, Central Banks and International Institutions	1	1
Other	73	66
Subtotal	239	224
Time:		
Banks in Foreign Countries*	1,337	1,090
Foreign Governments, Official Institutions, Central Banks and International Institutions	456	372
Other	347	256
Subtotal	2,140	1,718
Total	$2,379	$1,942

*Includes foreign branches of United States banks.

Income from international operations is determined after internal allocation for taxes, expenses, provision and reserve for possible credit losses on loans, capital and borrowed funds. Such allocations and the underlying assumptions are subjective and may change as management's criteria for evaluating profit center profitability evolve or are revised in response to changing conditions and risks. Expenses charged to international operations include those directly incurred in connection with such activities plus an allocable share of general policy and staff charges.

At December 31, 1978 and 1977, Assets, Revenues, Income Before Income Taxes and Securities Transactions and Net Income associated with activities in any one foreign country were less than 10% of consolidated amounts.

The interest-bearing deposits with banks at domestic offices (see Note 3) include $446,350,000 and $362,000,000 at December 31, 1978 and 1977, with foreign domiciled institutions which are purchased as an integral part of the Bank's money market and arbitrage activities. Such transactions are not considered part of the Bank's international operations.

FIRST NATIONAL HOLDING CORP.

Foreign activity

The Company's foreign activities include all business conducted with foreign domiciled customers. Due to the complex nature of the Company's domestic and foreign activities, it should be noted that the distinction between domestic and foreign business is in part arbitrary. Certain assumptions and subjective allocations have been made in distributing revenue and expense between foreign and domestic operations. The principal allocation is the funding of foreign assets. Charges for funds employed are calculated on the amount and nature of the assets and are based on a pooled cost of funds concept. Overhead expense is based on methods which in management's judgment reflect services provided.

The following table summarizes the Company's foreign and domestic activities for the year ended December 31, 1978, in thousands of dollars:

	Foreign	Domestic	Total
Total revenue	$ 24,735	$ 210,132	$ 234,867
Total expense	21,512	192,912	214,424
Income before taxes and net security gains and (losses)	3,223	17,220	20,443
Provision for income taxes	1,609	4,028	5,637
Income before net security gains and (losses)	$ 1,614	$ 13,192	$ 14,806
Total Assets At December 31, 1978	$449,775	$2,560,937	$3,010,712

A distribution of the Company's foreign assets at December 31, 1978, follows in thousands of dollars:

Due from banks	$ 860
Interest-bearing deposits in other banks	325,397
Loans	
Financial institutions	59,070
Commercial and industrial	23,467
Governments and official institutions	8,777
Other loans	8,957
	100,271
Allowance for possible loan losses	(500)
	99,771
Customers' acceptances	15,241
Investment in less than wholly-owned affiliate	2,550
Other assets	5,956
	$449,775

Transactions in the allowance for possible losses in the foreign loan portfolio are summarized below in thousands of dollars:

Balance at January 1, 1978	$200
Provision	297
Recoveries	3
Balance at December 31, 1978	$500

Deposit liabilities resulting from foreign activities follow in thousands of dollars:

	December 31, 1978
Banks in foreign countries including balances of foreign branches of other U.S. banks	$162,848
Other foreign demand	1,671
Foreign time and savings	1,958
	$166,477

FIDELCOR, INC.

Foreign Operations

The Corporation has significant foreign operations. These foreign operations consist of business originating in both U.S. and foreign banking offices. The Corporation allocates foreign operations into geographic areas according to the domicile of the customer. Income and expense related to such operations are segregated on the basis of internal allocations and estimates which generally parallel the assignment of assets, except for those items of income and expense directly identified with a particular geographic area. Funding costs allocated to foreign operations are based on the Bank's weighted average cost of federal funds and corporate time deposits. Following is the allocation of foreign operations into geographic areas for the years ended December 31, 1978 and 1977.

	Latin America	Europe	Middle East/ Africa	Asia/ Australia	Total
	(in thousands)				
Year Ended December 31, 1978					
Net interest and other income	$ 6,137	$ 5,404	$ 3,385	$ 2,785	$ 17,711
Provision for loan losses	786	2,136	605	203	3,730
Non-interest expenses	3,078	5,419	3,444	1,804	13,745
Income (loss) from continuing operations before income taxes and securities gains and losses	2,273	(2,151)	(664)	778	236
Income (loss) from continuing operations before securities gains and losses	2,067	(2,272)	(730)	684	(251)
Total assets	201,264	264,360	72,080	69,807	607,511
Year Ended December 31, 1977					
Net interest and other income	$ 6,010	$ 5,577	$ 4,561	$ 3,798	$ 19,946
Provision for loan losses	216	244	103	41	604
Non-interest expenses	2,154	4,321	3,015	1,959	11,449
Income from continuing operations before income taxes and securities gains and losses	3,640	1,012	1,443	1,798	7,893
Income from continuing operations before securities gains and losses	1,869	519	741	921	4,050
Total Assets	307,850	283,924	120,395	214,594	926,763

EXAMPLES Other segment data footnotes

INDUSTRIAL VALLEY BANK AND TRUST COMPANY
(Separate note to financial statements)

Business Segments

December 31, 1977	Banking (in thousands)	Title Insurance	Other	Adjustment And Elimination	Consolidated
Gross Revenues					
Other than affiliates	$ 98,322	$10,337	$ 7,292	$ -	$ 115,951
Affiliated companies	180	75	566	(821)	-
Total Gross Revenues	$ 98,502	$10,412	$ 7,858	$ (821)	$ 115,951
Operating income before taxes	$ 7,191	$ 1,043	$ 959	$ 88	$ 9,281
Interest expense relating to acquisitions					$ 190
Income before taxes and securities transactions					$ 9,091
Assets at December 31, 1977	$1,462,652	$20,956	$ 38,279	$ (18,221)	$1,503,666
Depreciation expense	$ 1,042	$ 138	$ 542	$ -	$ 1,722
Capital expenditures	$ 2,556	$ 205	$ 493	$ -	$ 3,254

December 31, 1978	Banking (in thousands)	Title Insurance	Other	Adjustment And Elimination	Consolidated
Gross Revenues					
Other than affiliates	$ 125,084	$13,222	$ 13,668	$ -	$ 151,974
Affiliated companies	3,956	-	632	(4,588)	-
Total Gross Revenues	$ 129,040	$13,222	$ 14,300	$ (4,588)	$ 151,974
Operating income before taxes	$ 7,125	$ 1,919	$ 1,115	$ 28	$ 10,187
Interest expense relating to acquisitions					$ 211
Income before taxes and securities transactions					$ 9,976
Assets at December 31, 1978	$1,759,883	$24,728	$131,333	$(125,690)	$1,790,254
Depreciation expense	$ 993	$ 70	$ 723	$ -	$ 1,786
Capital expenditures	$ 1,838	$ 170	$ 2,150	$ -	$ 4,158

The Company operates principally in two major industries, banking and title insurance. The Bank is engaged in a wide range of commercial and trust activities, with offices in Southeastern Pennsylvania. The title insurance business engages in insuring titles to real estate, conducting title searches, and real estate settlements for commercial and residential properties.

FIRST NATIONAL CHARTER CORPORATION
(Separate note to financial statements)

Financial Reporting for Segments of a Business Enterprise

First National Charter Corporation is a Registered Bank Holding Company and operates exclusively in the banking business as defined by Regulation Y issued by the Board of Governors of the Federal Reserve System. The Corporation had no reportable separate segments for the years ended December 31, 1978 and 1977.

FIRST UNION CORPORATION
(Excerpt from summary of accounting policies)

Business Segments

The Company has determined that for business segment reporting purposes its principal segments are commercial banking (First Union National Bank) and mortgage banking (Cameron-Brown Company). Separate consolidated financial statements for these segments for the years ended December 31, 1978 and 1977 are included on pages 47 through 50. The Company's foreign business activity constitutes less than ten percent of assets, revenues and net income.

REPUBLIC NATIONAL BANK OF DALLAS
(Excerpt from summary of accounting policies)

Segmental Reporting

The Bank and its subsidiaries engage in a single industry segment--commercial banking, both domestically and internationally. Information relating to the international operations is presented in Note 10. No customer contributed as much as 10% to consolidated revenues.

CLEVETRUST CORPORATION

(Separate note to financial statements)

Business Segments
The Corporation is a multi-bank holding company whose principal subsidiaries are engaged in the commercial banking business. While these subsidiaries offer a wide range of services, they are all deemed to be part of commercial banking. Assets, income, income before income taxes and net income, as associated with foreign activities, were each less than ten percent of the corresponding consolidated amount.

EXAMPLES Introduction of Form 10-K included in annual shareholders' report

CITICORP

Financial Information

Introduction
As with last year's Annual Report & Form 10-K, we are again providing a report that incorporates into a single document the requirements of the accounting profession and the Securities and Exchange Commission, including a comprehensive explanation of 1978 results.

The material following contains:

A description of Citicorp's different customer markets and activities, explaining how Citicorp is structured to service its customers and conduct its businesses.

A financial and narrative summary of operations with Citicorp management's analysis of the consolidated statements of income and condition. Explanations of each major item reported on the statement of income are provided.

An analysis of the volumes and risk characteristics of Citicorp's lending activities.

Separate reporting of Citicorp's consumer loans and loan losses from its commercial lending activities. This expanded disclosure should be helpful to investors by further clarifying the underlying mix of Citicorp's activities.

A summary of 1977 results, summary five-year financial statistics and quarterly financial data.

The financial statements of Citicorp and Citibank. Accompanying the financial statements are the statement of accounting policies and the footnotes that are required under generally accepted accounting principles.

Citicorp management's discussion of financial reporting responsibility and our independent auditors' report on their examination of the financial statements.

The index on page 23 provides a topical synopsis of the material in this report and as well specific reference, where appropriate, to the Form 10-K item numbers.

MARINE MIDLAND BANKS, INC

Form 10-K The second section of the 1978 Annual Report of Marine Midland Banks, Inc. consists of Form 10-K, the annual report filed with the SEC in Washington, D.C. which contains detailed financial information on Marine Midland Banks, Inc.

GIRARD COMPANY

In providing financial statements, management has included in this report to shareholders a copy of Girard's Annual Report, Form 10-K, to the Securities and Exchange Commission, which follows on the tan colored pages. Most of the Form 10-K data is required by the SEC to be included within annual reports to shareholders, as has been the case for several years. Incorporation of the Form 10-K combines within this document the reporting requirements of the accounting profession and the SEC.

EXAMPLES Index to 10-K information included in annual report to shareholders

GIRARD COMPANY

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BANKERS TRUST NEW YORK CORPORATION

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Part II

The information required by the items in this part has been omitted pursuant to instruction H of Form 10-K since the Corporation intends to file with the Commission a definitive Proxy Statement, pursuant to Regulation 14A, not later than 120 days after December 31,1978.

*None.
**Disclosed in a report on Form 10-Q for the quarter ended March 31, 1978.
***There were no reports on Form 8-K filed during the quarter and the year ended December 31, 1978.

This report on Form 10-K has not been approved or disapproved by the Securities and Exchange Commission nor has the Commission passed upon the accuracy or adequacy of this report.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Bankers Trust New York Corporation

Emile A. NeJame, Controller
March 9, 1979

FIRST WISCONSIN CORPORATION

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Part II

The information required in this part has been omitted pursuant to general instruction H of Form 10-K since the Corporation has enclosed with this report and filed with the Securities and Exchange Commission a definitive proxy statement pursuant to Regulation 14A which includes all such information with the exception of the list of executive officers of the registrant included herein as Item 14 on page 47.

EXAMPLES Management reports on financial statement responsibility and internal control

BANKAMERICA CORPORATION

MANAGEMENT'S COMMENTARY ON FINANCIAL STATEMENTS

Management is responsible for the preparation and presentation of the financial statements on the following pages which provide the formal report on the results of BankAmerica Corporation's operations for the year 1978 and its financial condition at year end. In the opinion of management, the information herein is fairly stated and to that end, procedures are maintained which are designed to produce reliable accounting records, supported by a system of adequate internal controls. These procedures include formal delegations of authority; maintenance of a financial planning system; internal auditing and credit examination functions; a corporate code of conduct; quality standards in hiring and training of employees; and issuance of standard practice manuals and guides. The financial accounting process, which encompasses data collection and report preparation, is governed by United States generally accepted accounting principles, and the requirements of the Securities and Exchange Commission and banking regulatory agencies. The Board of Directors maintains an Auditing and Examining Committee of directors who are neither officers nor employees of the corporation that periodically meets with management and the internal and external auditors to assure that the financial accounting and audit process is properly conducted.

Ernst & Ernst, Certified Public Accountants, have examined the financial statements herein and their report appears on page 52. Their examination was made in accordance with generally accepted auditing standards.

CITICORP

Financial Reporting Responsibility

The accompanying financial statements have been prepared by the management of Citicorp in conformity with generally accepted accounting principles appropriate in the circumstances. Where amounts must be based on estimates and judgments, they represent the best estimates and judgments of management. The financial information appearing throughout this annual report is consistent with that in the financial statements.

The accounting system and related internal accounting controls of Citicorp are designed to provide reasonable assurance that the financial records are reliable for preparing financial statements and maintaining accountability for assets and that assets are safeguarded against loss from unauthorized use or disposition. The system in use at Citicorp provides such reasonable assurance, supported by the careful selection and training of staff, the establishment of organizational structures providing an appropriate and well-defined division of responsibilities, and the communication of policies and standards of business conduct throughout the institution.

The accounting policies and system of internal accounting controls are under the general oversight of the Citicorp and Citibank Boards of Directors, acting through the Accounting, Audit and Examining Committees described on page 18. These committees are comprised entirely of directors who are not officers or employees of Citicorp. The Comptroller of Citicorp, who reports directly to the Board of Directors, conducts an extensive program of audits and risk asset reviews worldwide, carried out by a staff of resident inspectors and reviewers and traveling teams. In addition, Peat, Marwick, Mitchell & Co., independent certified public accountants, is engaged to examine our financial statements. Total expenditures for both internal and external audit programs approximate $30 million.

Peat, Marwick, Mitchell & Co. obtains and maintains an understanding of our accounting and financial controls and conducts such tests and other auditing procedures as they consider necessary in the circumstances to express the opinion in their report shown below. Peat, Marwick, Mitchell & Co. has free access to the Audit and Examining Committees, with no members of management present, other than members of the Comptroller's Division, to discuss their examination and their findings as to the integrity of Citicorp's financial reporting and the adequacy of the system of internal accounting controls.

NORTHWEST BANCORPORATION

Report of Management

The financial statements of Northwest Bancorporation were prepared by management, which is responsible for their integrity and objectivity. Management believes that the financial statements have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances to reflect in all material respects the substance of events and transactions that should be included, and that other information in the annual report is consistent with those statements. In preparing the financial statements, management makes judgements and estimates of the expected effects of events and transactions that are currently being accounted for.

In meeting its responsiblity for the reliability of the financial statements, management depends on the Corporation's system of internal accounting control. The system is designed to provide reasonable assurance that assets are safeguarded, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. In designing control procedures, management recognizes that errors or irregularities may nevertheless occur. Also, estimates and judgments are required to assess and balance the relative costs and expected benefits of the controls. This system is augmented by written policies, operating procedures and accounting manuals, plus a strong program of internal audit carried out with carefully selected and qualified personnel.

The board of directors pursues its role of overseeing these financial statements through an Audit and Examination Committee composed solely of directors who are not officers or employees of the Corporation. The Committee meets periodically with management, internal auditors and examiners to review the work of each and to monitor the discharge by each of its responsibilities. The Committee also meets with the independent auditors who have free access to the Committee or the Board, without management present, to discuss internal accounting control, auditing and financial reporting matters.

The independent auditors are engaged to express an opinion on the financial statements. Their opinion is based on procedures that they believe are sufficient to provide reasonable assurance that the financial statements are not materially misleading and do not contain material errors.

Management has long recognized the responsibility for conducting the Corporation's affairs with a high level of integrity and accountability to its stockholders, customers and society. This is reflected in policy statements which include a Code of Ethics and compliance with various regulatory and consumer laws. Educational and review programs are designed to help ensure that these policies are understood and followed.

Richard H. Vaughan
President and
Chief Executive Officer

Walter C. Johnson
Executive Vice President
Finance

January 22, 1979

MERCANTILE BANCORPORATION INC.

Financial Analysis

To the Shareholders of Mercantile Bancorporation Inc.

The financial statements and related information contained herein have been prepared in conformity with generally accepted accounting principles, appropriate in the circumstances, and include amounts that are based on our best estimates and judgments.

The Corporation maintains an accounting system and related controls that we believe are sufficient to provide reasonable assurance that financial records are reliable for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance is based on the recognition that the cost of a system of internal control must be related to the benefits derived and that the balancing of those factors requires estimates and judgment. The system and controls and compliance therewith are reviewed by an extensive program of internal audits and by our independent public accountants in accordance with generally accepted auditing standards.

Reporting on the financial affairs of the Corporation is the responsibility of management. The Audit Committee of the Board of Directors, composed solely of outside directors, meets with the independent public accountants, management, and internal auditors periodically to review the work of each and insure that each is properly discharging its responsibilities. To insure complete independence, our independent public accountants meet with the Audit Committee, without management representatives present, to discuss the results of their examination and their opinions on the adequacy of internal controls and the quality of financial reporting.

SECURITY PACIFIC CORPORATION

(Excerpt from summary of accounting policies)

The accompanying financial statements were prepared by management which is responsible for the integrity and objectivity of the data presented including amounts that must necessarily be based on judgements and estimates.

Accounting and reporting policies conform with generally accepted accounting principles. Where acceptable alternative accounting principles exist, management has selected the method it believes is most appropriate in the circumstances. The following is a summary of the significant policies:

FIRST NATIONAL HOLDING CORP.

Report of Management

The financial statements listed in the accompanying index, which were prepared by the Company, are based on generally accepted accounting principles consistently applied and are considered by management to reflect the financial position of the Company at December 31, 1978 and 1977, and the results of operations and changes in financial position for the years then ended. All of the financial information presented elsewhere in this report is consistent with that in the financial statements.

The integrity of the data in these financial statements is the responsibility of management. In meeting this responsibility, management maintains an accounting system and related controls to provide reasonable assurance that financial records are reliable for preparing financial statements and for maintaining accountability for assets. The system and controls also provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization. Periodic reviews of the system and controls are performed by internal auditors and by independent accountants, whose activities are coordinated to obtain maximum efficiency.

We believe that the Company's position in regard to litigation and claims is appropriately accounted for and disclosed in this report.

The adequacy of the Company's accounting system and related controls are under the general supervision of the Audit and Compliance Committee, which is composed of non-management directors and which meets quarterly with management, internal auditors and the independent accountants.

John Zimmermann

Controller and Chief Accounting Officer

January 12, 1979

EQUIMARK CORPORATION

Responsibility for Financial Statements

To the Shareholders:
Corporate management acknowledges its responsibility for the fairness, integrity and objectivity of the accompanying financial statements. These statements were prepared in conformity with generally accepted accounting principles, and, as applicable, include amounts that are based on our best estimates and judgments. Financial information appearing elsewhere in this annual report has been prepared in a manner consistent with financial statement disclosures.

The financial statements and information are generated through the Corporation's accounting systems and related internal controls. These systems and controls are designed to assure that the underlying financial records accurately reflect the transactions of the Corporation and its subsidiaries, that corporate assets are safeguarded, and that financial statements present fairly the financial position and results of operations. These systems include careful selection and training of qualified personnel, appropriate segregation of responsibilities, the communication of written policies and procedures, and an internal audit staff to monitor effectiveness.

The Board of Directors, with the assistance of its Audit Committee, monitors the financial and accounting operations of the Corporation, including the review and discussion of periodic financial information, the internal audit function and the scope of examination and subsequent reporting by the Corporation's independent accountants.

Price Waterhouse & Co., independent accountants, have examined the financial statements of Equimark Corporation for the years ended December 31, 1978 and 1977, and their report is included herein. The independent accountants met with the Audit Committee and the Board of Directors to discuss the results of their examination and presented their views with respect to the adequacy of internal accounting controls and external financial reporting of the Corporation. The Corporate Auditor reported quarterly to the Audit Committee on the scope, status and results of the internal audit work.

We rely on such audit functions to assist us in fulfilling our responsibility for the fairness of the Corporation's financial reporting and in monitoring the effectiveness of our system of internal controls.

On behalf of Equimark management,

R.F. Kastelic
Executive Vice President
and Chief Financial Officer

W.E. Bierer
President and Chief Executive Officer

Pittsburgh, Pa.
February 7, 1979

VALLEY NATIONAL BANK OF ARIZONA

Responsibility for Financial Statements

The management of The Valley National Bank of Arizona is responsible for the integrity of its consolidated financial statements and their preparation in accordance with generally accepted accounting principles. To fulfill this responsibility requires the maintenance of a sound accounting system supported by strong internal controls. The bank believes it has a sound accounting system and a high level of internal control which are maintained by the recruitment and training of qualified personnel, appropriate divisions of responsibility, the development and communication of accounting and other procedures, and comprehensive internal audits.

Our independent public accountants are engaged to examine and to render an opinion on, the fairness of our consolidated financial statements in conformity with generally accepted accounting principles. Their opinion appears on this page. Our independent public accountants evaluate the effectiveness of our internal accounting control systems, review selected transactions and carry out other auditing procedures before expressing their opinion on our financial statements.

The Board of Directors has appointed an Audit Committee composed of outside directors which meets with the independent public accountants, national bank examiners, management and internal auditors periodically to review the work of each. The public accountants, national bank examiners and the bank's internal auditors have free access to meet with the Audit Committee without management's presence.

Wm. Hotsko
Controller

Howard C. McCrady
Chief Financial Officer

SECTION C
Statement of Condition

Statement of condition title

Substantially all reports of commercial banks and holding companies continue to use the titles "Statement of Condition" (38%) or "Balance Sheet" (59%).

Interest bearing deposits with other banks

Interest bearing deposits with other banks were disclosed by approximately 67% (50% in 1977) of the survey companies. Companies making this disclosure did so as indicated in Table 11.

Table 11. Interest Bearing Deposits with Other Banks

	Total Companies	
	78	77
Reports disclosing interest bearing deposits with other banks that included the disclosure in:		
The statement of condition:		
Separate caption	93%	93%
Parenthetically	4	5
	97	98
Notes to Financial Statements	3	2
	100%	100%
Number of reports included in this table	169	127

EXAMPLES Disclosure of interest bearing deposits with other banks

SEAFIRST CORPORATION

	December 31	
	1978 (In Thousands)	1977
Assets		
Cash and Due from Banks	$849,875	$726,391
Time Deposits with Other Banks	34,019	69,001
Total Cash And Due From Banks	883,894	795,392

AUSTIN BANCSHARES CORPORATION

	December 31	
	1978	1977
Assets		
Cash and due from banks, including interest bearing deposits of $2,000,000 in 1978 and $200,000 in 1977	$95,839,198	$84,529,890

EXCHANGE BANCORPORATION, INC.

	December 31	
	1978 (In Thousands)	1977
Assets		
Interest earning assets:		
Loans, net of unearned income	$442,498	$377,213
Less allowance for loan losses	4,766	5,362
Net loans	437,732	371,851
Investment securities (approximate market value of $180,581,000 and $189,870,000 respectively)	188,878	191,524
Time deposits with banks	4,000	3,001
Federal funds sold and securities purchased under agreements to resell	40,253	57,248
Direct lease financing, net	7,036	5,501
Total interest earning assets	677,899	629,125

FIRST UNION CORPORATION

	December 31, 1978	1977	Increase (Decrease) Percent
	(In thousands)		
Assets			
Cash and due from banks:			
Cash and due from banks--demand	$286,267	$235,355	21.6%
Interest bearing balances with domestic banks	41,932	27,109	54.7
Interest bearing balances with foreign banks	104,400	112,501	(7.2)
Total cash and due from banks	432,599	374,965	15.4

Securities title

The most prominent format continues to be disclosure of securities in the investment portfolio under the heading "Investment Securities" with separate disclosure of trading account securities elsewhere in the statement of condition.

Table 12. Securities Title

	Commercial Banks		Holding Companies	
	78	77	78	77
Reports with a separate heading for securities titled:				
Investment securities	90%	81%	88%	78%
Securities	1	7	6	8
Investments or other			1	3
	91	88	95	89
No heading	9	12	5	11
	100%	100%	100%	100%

Investment securities disclosure

The following practices were surveyed with regard to investment securities:

1. Valuation method—reference made to amortization of premiums, accretion of discounts and disclosure of amounts.
2. Market value—market value was considered disclosed if disclosure was made in either the text or financial highlights section of the annual report or in the formal financial statements or notes thereto.
3. Maturity information—maturity information was considered disclosed if made in the text or financial highlights section of the annual report or in the formal financial statements or notes thereto.

Substantially all companies surveyed used cost adjusted for amortization of premiums and accretion of discounts as their valuation method.

Fifty-four percent of the companies surveyed disclosed the aggregate market value of investment securities on the face of the balance sheet. This disclosure is the result of voluntary early compliance with one of the requirements of revised Article 9. Table 13 shows the percent of the survey companies which disclosed the market value of investment securities by category of security.

Table 13. Investment Securities Disclosure

	1978	1977
Reports in which investment securities were disclosed as being valued on the basis of:		
Cost adjusted for amortization of premiums and accretion of discounts, discount accretion not disclosed	95%	90%
Cost, adjusted for amortization of premiums and accretion of discounts, discount accretion disclosed	4	8
Cost less amortization of premium only	1	1
	100	99
No disclosure made		1
	100%	100%
Reports disclosing market values of investment security categories in:		
A note to the financial statements	91%	93%
Statement of condition	4	4
Text of report or financial highlights only	1	1
	96	98
No disclosure made	4	2
	100%	100%
Reports disclosing maturity information in:		
A note to the financial statements	30%	28%
Text of report or financial highlights	44	44
	74	72
No disclosure made	26	28
	100%	100%

Concentration of investments

The revised Article 9 of Regulation S-X requires disclosure of the investment in securities of any issuer where the aggregate book value of that investment exceeds 10% of shareholders' equity. In 1978, 18% of the survey companies disclosed investment security concentrations compared to 10% in 1977. Also, 8% (2% in 1977) stated that no such concentration existed.

Disclosure trends on New York City securities can be obtained by reference to the 1978 issue of *Financial Reporting Trends—Banking*. The incidence of disclosures relating to New York City securities did not vary significantly from 1977 levels and has decreased substantially from 1976 and 1975 levels.

Valuation of trading securities

The survey indicated the principal method of valuing trading securities was lower of cost or market. Market values of trading account securities were disclosed by 53% in 1978 and 30% in 1977 of the survey companies disclosing trading accounts.

Table 14. Valuation of Trading Securities

	1978	1977
Reports disclosing trading securities in which the securities were shown on the basis of:		
Cost	2%	2%
Lower of cost or market	73	76
Market	20	17
	95	95
Basis not disclosed	5	5
	100%	100%
Number of reports disclosing trading securities	156	133

Short-term investment disclosures

The captions used by the survey companies to disclose short-term investments in the statement of condition are presented in Table 15.

Table 15. Short-Term Investment Captions

	Commercial Banks	Multi-bank Holding Companies	One-bank Holding Companies
Percent of reports in which the following short-term investment captions were used:			
Federal funds sold and securities sold under repurchase agreements	46%	54%	54%
Federal funds sold	37	30	24
Money market investments	8	6	3
Securities sold under repurchase agreements	3	3	5
Funds sold	6	3	8
Short-term investments	3	9	13
Other	10	8	3
None disclosed	2		

EXAMPLES Disclosure of securities valuation method (summary of accounting policies)

BANK OF NEW YORK COMPANY, INC.

Bond investments, which are generally held to maturity, are stated at cost plus discount accrued and less premium amortized. Equity investments and trading account securities are stated at the lower of cost or market value.

Gains and losses on the sale of investment securities represent the difference between net proceeds and carrying value, determined generally on the specific identification method. Gains and losses on the sale of trading account securities are included in Other Operating Income.

BANK OF THE COMMONWEALTH

Investment securities are stated at cost, adjusted for amortization of premiums and discounts on a straight-line method. Trading account securities are stated at the lower of cost or market. Gains or losses on sale of investment securities are recognized at the time of sale by the identified certificate method. Interest earned, commissions, adjustments of carrying amounts to market, and gains or losses on sales of trading account securities are included in trading account income.

OLD NATIONAL BANCORPORATION

Investment securities, which are generally held to maturity, are included in the financial statements at cost, adjusted for the amortization of premiums and accretion of discounts. Gains or losses are computed at disposition on the basis of the identified certificate method. Trading account securities are carried at market value. Gains or losses on trading activities are regarded as normal operations.

EXAMPLES Disclosure of aggregate market value in the statement of condition

NEW JERSEY NATIONAL CORPORATION

Investment securities, market value of $341,175,155 and $383,912,827 at December 31, 1978 and 1977 respectively	365,013,372	389,840,269

SOUTH CAROLINA NATIONAL CORPORATION

Investment securities:		
U.S. Treasury securities	44,536	43,668
Securities of other U.S. Government Agencies and Corporations	14,603	2,351
Obligations of states and political subdivisions	104,716	105,341
Other securities	1,018	968
Total investment securities (Market value Of $161,867 and $157,884)	164,873	152,328
Trading account securities (Market value of $16,929 and $14,966)	16,890	13,921

BANK OF THE COMMONWEALTH

Investment securities: (estimated market $191,194,000 in 1978 and $153,947,000 in 1977)		
U.S. Treasury	151,994,034	104,131,914
U.S. Government agencies	20,092,619	21,163,603
States and municipalities	22,698,971	23,505,778
Other	13,541,111	14,213,999
Total investment securities	208,326,735	163,015,294

WALKER BANK & TRUST COMPANY

Investment securities (approximate market value: 1978-$114,853,841; 1977-$110,487,760) --Note B		
U.S. Treasury and agencies	48,902,170	39,360,651
Obligations of state and political subdivisions	68,340,915	68,690,161
Other securities	617,908	616,815
Total investment securities	117,860,993	108,667,627

EXAMPLES Disclosure of market values by category of security (separate note to financial statements)

J.P. MORGAN & CO., INCORPORATED

A comparison of the book value and market or appraised value of investment and trading account securities at December 31, 1978 and 1977 follows. Appraised values are used for securities without market quotations. The market values of securities of states and political subdivisions are established with the assistance of an independent pricing service and are based on available market data, which often reflect transactions of relatively small size and are not necessarily indicative of the prices at which large amounts of particular issues could readily be sold or purchased.

	1978, in thousands		1977, in thousands	
	Book Value	Market Or Appraised Value	Book Value	Market Or Appraised Value
Investment securities				
U.S. Treasury	$ 618,813	$ 608,597	$ 970,790	$ 974,644
U.S. government agency	111,036	107,125	165,495	167,120
State and political subdivision	1,509,004	1,463,298	1,387,507	1,431,689
Other	949,764	970,215	522,445	547,069
	3,188,617	3,149,235	3,046,237	3,120,522
Trading account securities, net	283,733	283,733	48,183	48,183
Total securities	$3,472,350	$3,432,968	$3,094,420	$3,168,705

INDUSTRIAL NATIONAL CORPORATION

The following schedule shows the carrying value and market value of investment securities at December 31:

	Carrying Value		Market Value	
	1978	1977	1978	1977
	(000 omitted)			
U.S. Treasury	$278,144	$304,479	$261,566	$296,661
U.S. Government agencies	58,274	11,072	57,325	11,061
State and municipal	258,580	205,880	252,747	207,091
Other	7,106	4,310	7,595	4,768
	$602,104	$525,741	$579,233	$519,581

The carrying values of the above securities, except for marketable equity securities included in Other, are stated at cost, adjusted for accumulated amortization of premium and accretion of discount.

CITICORP

	1978		1977	
	Carrying Value	Market Value	Carrying Value	Market Value
	(In Thousands at Year End)			
U.S. Treasury	$ 838,021	$ 795,900	$ 933,209	$ 918,700
Federal agencies	219,969	205,000	182,370	178,600
State and municipal				
New York City and Municipal Assistance Corporation	462,594	421,100	444,809	400,500
New York State and agencies	198,864	161,200	846,325	817,200
All other	153,297	124,300	260,885	230,100
Other				
In domestic offices				
Bonds, notes, debentures and corporate stock	108,990	134,800	107,586	109,300
Stock of the Federal Reserve Bank	60,954	60,900	54,906	54,900
In overseas office (primarily local government issues)	1,955,222	1,992,000	1,379,626	1,406,300
	$3,997,911	$3,895,200	$4,209,716	$4,115,600

CHEMICAL NEW YORK CORPORATION

Investment Securities

The book value and approximate market value of investment securities of the Corporation and its subsidiaries are summarized as follows:

	December 31			
	1978		1977	
	Book Value (In thousands)	Market Value	Book Value	Market Value
Investment Securities:				
U.S. Treasury and Federal Agencies	$1,928,899	$1,832,319	$2,881,485	$2,856,213
Obligations of States and Political Subdivisions:				
New York City:				
Notes	16,825	17,010	-	-
Bonds	15,778	12,296	17,045	13,111
Municipal Assistance Corporation Bonds	270,861	241,934	282,344	249,266
New York State and New York State Agencies	124,085	114,264	203,795	199,010
Other State and Municipal	808,002	767,593	867,451	871,444
Total Obligations Of States And Political Subdivisions	1,235,551	1,153,097	1,370,635	1,332,831
Other	395,295	382,127	284,336	289,484
Total	$3,559,245	$3,367,543	$4,536,456	$4,478,528

LLOYDS BANK CALIFORNIA

	December 31, 1978		December 31, 1977	
	Book Value (in thousands)	Market Value	Book Value	Market Value
U.S. Treasury and other U.S. Government agencies and corporations	$269,072	$258,449	$218,725	$213,757
State, county and municipal	44,182	35,527	44,627	39,448
Corporate bonds	12,144	9,181	12,549	9,838
	$325,398	$303,157	$275,901	$263,043

COMMUNITY NATIONAL BANK

The following is a summary of the Bank's investment securities portfolio as of December 31, 1978:

	U.S. Treasury Obligations (in thousands)	U.S. Government Agencies	State and Political Subdivisions	Corporate Bonds and Other Securities
Maturity distribution--				
One year or less	$ 9,020	$12,000	$21,155	$628
Over one year through five years	22,000	22,000	25,564	7
Over five years through ten years	-	-	15,799	-
Over ten years	-	-	7,150	5
Total par value	$31,020	$34,000	$69,668	$640
Carrying value	$31,051	$34,113	$70,913	$640
Estimated market	$29,840	$33,096	$69,694	$640

FIRST EMPIRE STATE CORPORATION

Investment Securities

The maturities of investment securities at amortized cost, their yields and their par and market values follow:

	U.S. Treasury and Federal Agency	State and Municipal	Other	Total	Weighted Average Yield
Amortized cost at December 31, 1978:					
Due:					
1979	$ 99,923,366	21,080,477	604,833	121,608,676	6.8%
1980	52,995,426	4,421,992	499,276	57,916,694	7.0
1981-83	75,540,819	14,035,515	-	89,576,334	6.6
1984-88	2,000,000	20,271,834	121,197	22,393,031	5.3
After 1988	-	4,906,934	3,256,221	8,163,155	6.7
Other securities without specific maturities	-	-	5,205,926	5,205,926	-
Total	$230,459,611	64,716,752	9,687,453	304,863,816	6.6%
Average maturity in months	20.8	54.0	214.6	30.9	
Par value at December 31, 1978	$229,145,000	64,675,334	9,677,986	303,498,320	
Approximate market value					
December 31, 1978	$221,494,000	60,357,000	10,539,000	292,390,000	
December 31, 1977	225,838,000	55,303,000	10,431,000	291,572,000	

Other securities include investments of the Company's venture capital subsidiary. Realized gains upon sales of such securities are included in other revenues from operations and amounted to $573,280 in 1978 and $167,683 in 1977.

EXAMPLE Disclosure of maturity information (excerpt from note to financial statements)

FIRST HAWAIIAN, INC.

The maturities of investment securities, excluding the corporate stocks which have no stated maturity, are set forth below:

	Within 1 Year	After 1 But Within 5 Years	After 5 But Within 10 Years	After 10 Years	Total
	(In Thousands)				
December 31, 1978					
U.S. Treasury and other U.S. Government agencies and corporations	$ 83,377	$ 62,600	$ -	$11,156	$157,133
States and political subdivisions	20,523	53,225	66,276	16,537	156,561
Other	-	-	-	-	-
	$103,900	$115,825	$66,276	$27,693	$313,694
December 31, 1977					
U.S. Treasury and other U.S. Government agencies and corporations	$ 49,200	$ 50,253	$ -	$ 3,547	$103,000
States and political subdivisions	37,624	59,318	73,895	20,001	190,838
Other	-	-	-	118	118
	$ 86,824	$109,571	$73,895	$23,666	$293,956

EXAMPLES Combined disclosure of market values and maturity information (excerpt from separate note to financial statement)

GIRARD COMPANY

The maturity distributions of U.S. Treasury, government and agency and state and municipal securities as of December 31, 1978 were as follows:

Type and Maturity Grouping	Principal Amount	Book Value	Market Value
U.S. Treasury Securities:			
Within 1 year	$ 2,541	$ 2,510	$ 2,515
After 1 but within 5 years	90,598	89,725	85,823
After 5 but within 10 years	57,799	58,483	53,103
After 10 years	7,255	6,718	6,537
Total U.S. Treasury Securities	$158,193	$157,436	$147,978
Securities of Other U.S. Government Agencies and Corporations:			
Within 1 year	$ 14,843	$ 14,825	$ 14,680
After 1 but within 5 years	41,618	41,725	38,668
After 5 but within 10 years	50,710	50,760	45,691
After 10 years	23,383	23,030	20,342
Total Securities Of Other U.S. Government Agencies And Corporations	$130,554	$130,340	$119,381
Obligations of States and Political Subdivisions:			
Within 1 year	$ 20,430	$ 20,421	$ 20,325
After 1 but within 5 years	36,705	36,346	33,998
After 5 but within 10 years	15,351	15,322	14,191
After 10 years	83,970	82,387	75,500
Total Obligations Of States And Political Subdivisions	$156,456	$154,476	$144,014

EQUIMARK CORPORATION

	December 31, 1978		
	Par Value (In Thousands)	Carrying Value	Market Value
U.S. Treasury securities	$458,322	$457,875	$431,551
U.S. Government agencies and corporations	292,181	290,810	263,762
Obligations of states and political subdivisions	97,584	98,731	87,501
Other securities	14,090	14,068	13,780
Total investment securities	$862,177	$861,484	$796,594

The market value of investment securities by maturity group as of December 31, 1978 follows:

	U.S. Treasury securities (In Thousands)	U.S. Government agencies & corporations	Obligations of states & political subdivisions	Other securities
Within 1 year	$102,279	$ 732	$ 681	$ -
After 1 year, but within 5	234,638	49,942	4,475	6,700
After 5 years, but within 10	51,246	6,367	6,338	105
After 10 years	43,388	206,721	76,007	6,975
Total market value	$431,551	$263,762	$87,501	$13,780

UNITED STATES TRUST COMPANY OF NEW YORK

The maturities of securities at December 31, 1978 are summarized as follows:

	U.S. Gov't. Securities		Federal Agency Securities		State and Municipal Obligations		Total	
	Book Value (In Thousands)	Market Or Estimated Value	Book Value	Market Or Estimated Value	Book Value	Market Or Estimated Value	Book Value	Market Or Estimated Value
Within One Year	$ 64,935	$ 64,336	$ 8,007	$ 7,873	$ 9,481	$ 9,449	$ 82,423	$ 81,658
After One But Within Five Years	91,878	88,150	198,292	189,833	49,574	47,966	339,744	325,949
After Five But Within Ten Years	-	-	5,000	4,431	76,693	72,460	81,693	76,891
After Ten But Within Twenty Years	-	-	-	-	18,587	16,681	18,587	16,681
After Twenty Years	-	-	-	-	6,579	5,997	6,579	5,997
Total	$156,813	$152,486	$211,299	$202,137	$160,914	$152,553	$529,026	$507,176
Average Maturities	1 Yr.	3 Mos.	2 Yrs.	9 Mos.	7 Yrs.	7 Mos.	3 Yrs.	9 Mos.

UNITED BANK CORPORATION OF NEW YORK

Investment Securities

An analysis of the investment portfolio on a comparative basis follows:

	December 31, 1978		1977	
	Book Value (In Thousands)	Approximate Market Value	Book Value	Approximate Market Value
U.S. Government obligations:				
Under 1 year	$ 54,033	53,081	31,500	31,399
1 to 5 years	155,334	146,135	197,876	195,226
5 to 10 years	6,963	6,443	7,366	7,183
Over 10 years	-	-	45	45
Total	216,330	205,569	236,787	233,853
State of New York general and guaranteed obligations:				
Under 1 year	166,434	165,712	160,999	161,079
1 to 5 years	17,972	16,675	11,253	10,949
5 to 10 years	34,839	31,390	34,911	32,000
Over 10 years	12,838	8,314	15,092	10,266
Total	232,083	222,091	222,255	214,294
Other obligations of State of New York political subdivisions, agencies and authorities:				
Under 1 year	91,972	91,702	89,512	88,719
1 to 5 years	52,862	50,792	53,997	53,539
5 to 10 years	53,592	51,576	43,951	43,660
Over 10 years	12,465	11,566	5,872	5,212
Total	210,891	205,636	193,332	191,130
Obligations of other states, political subdivisions, agencies and authorities:				
Under 1 year	630	627	496	494
1 to 5 years	5,117	4,947	5,823	5,752
5 to 10 years	82	77	355	354
Total	5,829	5,651	6,674	6,600
Other securities	12,300	14,191	10,380	12,058
Total investment securities	$677,433	653,228	669,428	657,935

FIRST-CITIZENS BANK & TRUST COMPANY

Investment Securities

Market value and maturities for the securities portfolio were as follows at December 31:

	Under 1 Year (In thousands)	1-5 Years	5-10 Years	Over 10 Years	Total Book Value	Market Value
December 31, 1978						
U.S. Government obligations	$ 36,502	$160,132	$20,860		$217,494	$211,299
States and Political Subdivisions	669	15,113	45,314	$32,766	93,862	80,487
Other Securities	562		2,809	3,008	6,379	7,052
Totals	$ 37,733	$175,245	$68,983	$35,774	$317,735	$298,838
December 31, 1977						
U.S. Government obligations	$126,719	$145,853	$24,554		$297,126	$295,528
State and Political Subdivisions	4	412	6,605	$45,376	52,397	44,749
Other Securities	561		31	5,885	6,477	6,512
Totals	$127,284	$146,265	$31,190	$51,261	$356,000	$346,789

PEOPLES NATIONAL BANK OF WASHINGTON

INVESTMENT SECURITIES

The following table reflects the book and market values of investment securities as of December 31, 1978, grouped by type and maturity. Book and market values of securities held on December 31, 1977 are shown for comparative purposes.

	U.S. Treasury, U.S. Agency and Other Taxable Investment Securities	State and Political Subdivisions	Total
Book Value--December 31, 1978:			
Maturing within 1 year	$35,320,213	$ 7,202,220	$ 42,522,433
After 1 year but within 5	14,979,153	15,295,230	30,274,383
After 5 years but within 10	4,950,954	43,226,010	48,176,964
After 10 years	13,955,651	7,707,457	21,663,108
Total Book Value	$69,205,971	$73,430,917	$142,636,888
Market Value--December 31, 1978:			
Maturing within 1 year	$35,009,013	$ 7,190,898	$ 42,199,911
After 1 year but within 5	14,387,500	14,414,710	28,802,210
After 5 years but within 10	4,306,809	39,397,078	43,703,887
After 10 years	12,632,888	7,047,087	19,679,975
Total Market Value	$66,336,210	$68,049,773	$134,385,983
Book Value--1977	$59,451,522	$68,831,185	$128,282,707
Market Value--1977	$57,981,378	$67,050,388	$125,031,766

Included in taxable investment securities are other securities carried at a book value of $1,874,911 with a market value of $1,892,003 at December 31, 1978 and a book value of $1,467,842 and a market value of $1,486,356 at December 31, 1977. Such securities consist primarily of investments in the Federal Reserve Bank and the Federal National Mortgage Association.

Securities carried at approximately $59,741,000 on December 31, 1978 and $30,560,000 on December 31, 1977, were pledged to secure public deposits and trust funds as required by law.

FIRST COMMERCIAL BANKS, INC

INVESTMENT SECURITIES

A comparison of carrying amounts and approximate market value of investment securities at December 31, 1978 and 1977 follows:

	December 31, 1978		December 31, 1977	
	Carrying Amount	Market Value	Carrying Amount	Market Value
U.S. Treasury				
Within 1 year	$ 46,103,479	$ 45,137,097	$ 43,314,011	$ 43,466,483
After 1 year but within 5 years	163,431,614	156,521,142	121,578,236	120,609,915
After 5 years but within 10 years	1,942,540	1,787,018	1,298,594	1,299,940
After 10 years	40,166	29,550	40,178	30,328
	211,517,799	203,474,807	166,231,019	165,406,666
U.S. Government Agencies and Corporations				
Within 1 year	5,198,930	5,098,813	5,000,688	5,013,322
After 1 year but within 5 years	12,759,309	11,919,067	12,423,793	12,246,802
After 5 years but within 10 years	1,046,350	918,483	5,099,789	4,911,736
After 10 years	3,674,928	3,206,075	4,151,652	3,955,647
	22,679,517	21,142,438	26,675,922	26,127,507
State and Municipal				
Within 1 year	108,998,967	108,440,859	104,834,164	104,911,648
After 1 year but within 5 years	73,041,126	70,535,373	55,117,791	55,311,214
After 5 years but within 10 years	81,227,506	77,210,600	74,208,484	75,274,630
After 10 years	29,494,997	26,787,142	24,673,045	24,011,308
	292,762,596	282,973,974	258,833,484	259,508,800
Other				
Bonds, Notes and Debentures	4,053,774	3,567,962	4,677,910	4,284,213
Federal Reserve Bank Stock	1,165,450	1,165,450	1,696,000	1,696,000
Other Stocks	234,025	381,890	234,025	378,076
	5,453,249	5,115,302	6,607,935	6,358,289
Total Investment Securities	$532,413,161	$512,706,521	$458,348,360	$457,401,262

EXAMPLES Disclosure of securities concentration (excerpt from note to financial statements)

SECURITY NEW YORK STATE CORPORATION

The aggregate Book Value and market of securities of issuers which exceed 10% of Stockholders' Equity at December 31, 1978 were:

	1978 Book Value	1978 Market Value
	(Amounts in Thousands)	
Issuer		
State of New York	$16,738	$15,905
N.Y.S. Housing Finance Agency	13,732	13,240
N.Y.S. Dormitory Authority	5,882	5,486
Other State Agencies	3,109	2,949
	$39,461	$37,580

NORTHWESTERN FINANCIAL CORPORATION

At December 31, 1978, The Northwestern Bank owned obligations of the State of North Carolina and the City of Charlotte, North Carolina having aggregate amortized costs of $38,438,000 and $9,016,000 and aggregate market values of $36,110,000 and $8,638,000, respectively.

LIBERTY NATIONAL CORPORATION

Major issuers of state and municipal securities owned by the subsidiary Bank as of December 31, 1978 and 1977, were as follows:

	1978	
Issuer	Carrying Value	Market Value
Oklahoma City, Oklahoma	$11,300,708	$10,521,765
State of Oklahoma	12,812,198	11,244,579
Tulsa, Oklahoma	8,578,420	7,866,412

	1977	
Issuer	Carrying Value	Market Value
Oklahoma City, Oklahoma	$11,573,597	$11,467,367
State of Oklahoma	10,943,049	10,001,645
Tulsa, Oklahoma	7,861,274	7,596,430

WELLS FARGO & COMPANY

Included in obligations of states and political subdivisions at December 31, are the following securities:

	1978		1977	
	Book Value (In thousands)	Market Value	Book Value	Market Value
Municipalities within California*	$237,052	$214,013	$176,146	$168,496
State of California	76,206	64,510	82,234	77,776

*None of the issuers of securities within California exceeds 10 percent of stockholders' equity. The only issuer exceeding 10 percent of stockholders' equity was the state of California.

WINTERS NATIONAL CORPORATION

Information regarding aggregate investments in securities of an issuer exceeding 10 percent of shareholders' equity of the Corporation is presented below:

Name of Security	Dollar Amount of Investment	Market Value	Average Maturity
State of Connecticut	$10,205,628	$9,708,063	5.9 years

MERCHANTS NATIONAL CORPORATION

INVESTMENT SECURITIES

Below is an analysis of book values and market values of investment securities:

	December 31, 1978		December 31, 1977	
	Book Value	Market Value	Book Value	Market Value
U.S. Treasury	$ 42,281,569	$ 41,686,081	$ 82,886,950	$ 82,661,298
Federal Agencies	76,354,518	75,907,330	8,551,361	8,441,250
State and Municipal (1)	66,616,753	65,096,419	86,798,608	89,472,983
Other Investments	11,627,500	11,310,844	12,876,871	12,575,316
	$196,880,340	$194,000,674	$191,113,790	$193,150,847
Book value of securities pledged to secure public funds and for other purposes	$126,105,487		$130,274,559	
(1) Includes the following New York City securities:				
Municipal Assistance Corporation Bonds	$ 1,457,323		$ 1,464,830	
Other Securities Maturing within 3 Years	-		160,142	
Interest Income on These Securities	121,953		125,211	

Anticipated interest income on New York City securities for 1979 is $118,015. Discount is not accreted on these securities.
Securities gains after income taxes on New York City securities were $187,166 in 1977. No gains or losses were realized on these securities during 1978.

EXAMPLES Trading securities shown on the basis of lower of cost or market (summary of accounting policies unless otherwise stated)

FIDELITY UNION BANCORPORATION

Trading Account Securities. Trading account securities are stated at the lower of cost or market value. Adjustments to market value, gains or losses on completed transactions and interest earned on securities held in the trading account are recorded as "trading account income."

CHEMICAL NEW YORK CORPORATION

Trading account securities are carried at the lower of cost or market. Gains and losses on the sale of trading account securities are included in trading account profits.

UNION BANCORP, INC.

Trading account securities are carried at the lower of cost or market in the aggregate and are included in the Consolidated Statements of Condition in the securities caption appropriate for the security based on the issuer.

NCNB CORPORATION

Balance sheet:		
Trading account securities, at lower of cost or market value (market value-- $15,342 and $62,055)	15,342	62,055

FIRST NATIONAL BANK OF FORT WORTH

Trading account securities are stated at the lower of cost or market. Gains or losses from changes in market or sale of securities held in the trading account and interest earned on these securities are included in Trading Account Income.

SOUTHWEST BANCSHARES, INC.

Securities--Investment securities are carried at cost, adjusted for amortization of premiums and accretion of discounts. Gains or losses on disposition are computed by the specific-identification method. Trading account securities are carried at the lower of cost or market. Interest income on trading account securities is recorded on the cash basis. Gains or losses on disposition of trading account securities are included in other operating income.

EXAMPLES Trading securities shown on the basis of market (summary of accounting policies)

J.P. MORGAN & CO., INCORPORATED

Trading account securities are carried at market value. Gains and losses on trading account securities are considered to be a normal part of operations and are recorded in the caption "trading account profits (losses) and commissions."

BANKAMERICA CORPORATION

Trading account securities are carried at market value determined monthly. Realized gains and losses are determined by costing trading account securities under the average cost method. Market value adjustments and gains (losses) on these securities resulting from sales, and purchases to cover short sales, are considered part of the corporation's normal operations as a primary dealer in U.S. Government and state and municipal debt obligations. As such, these adjustments and realized gains and losses are included under Trading Account Securities Profit and Commissions.

CONTINENTAL ILLINOIS CORPORATION

Trading account securities are carried at market in the statements of condition. The trading account inventory is maintained primarily in connection with the Bank's operations as a primary dealer in U.S. Government and state, county and municipal debt obligations, buying and selling for its own account. Purchases and sales of trading account securities are considered to be a normal part of operations. Trading account securities are valued to market monthly, and these adjustments along with the results of normal day-to-day transactions are included in security trading profits and commissions.

Transfers of securities are not permitted between the trading account and the investment portfolio.

Loans

Table 16 indicates that the aggregate percent of survey companies disclosing loans in one caption in the statement of condition remained constant. For purposes of the survey, loans were considered to be disclosed in one caption if gross loans were not broken down by type of loan; unearned discounts and the allowance for loan losses were not considered to be separate captions. Further, a breakdown simply between domestic and foreign operations was not considered to be separate captions.

Table 16. Loan Titles and Format

	Commercial Banks		Multi-bank Holding Companies		One-bank Holding Companies		Total Companies	
	78	77	78	77	78	77	78	77
Reports disclosing loans (in the statement of condition):								
In one caption described as:								
Loans	76%	70%	64%	66%	71%	73%	69%	69%
Loans and discounts	3	3	2	2	3	4	3	3
	79	73	66	68	74	77	72	72
In two or three sub-captions	12	23	8	20	13	12	10	18
In more than three sub-captions	9	4	26	12	13	11	18	10
	100%	100%	100%	100%	100%	100%	100%	100%

	Total Companies	
	78	77
Reports disclosing loans in more than one caption (in statement of condition and/or footnote) which showed separate loan sub-caption for the following:		
Commercial	91%	77%
Mortgage or real estate (type not specified)	29	79
Real estate—Construction	66	*
Real estate—Mortgage	70	*
Installment/Consumer	89	77
Credit card	7	6
Foreign	39	26
Leasing (combined with loans)	6	6
Agriculture	10	16
Loans of non-banking subsidiaries	5	3
Other classifications	40	44
Number of reports disclosing loans in more than one caption in statement of condition or footnotes	231	198

*Information was not accumulated for 1977

Table 17 indicates the number of captions used to describe types of loans in the notes to financial statements.

Table 17. Loan Captions in Footnotes*

	Commercial Banks	Multi-bank Holding Companies	One-bank Holding Companies
Reports in which the number of captions used in describing loans in footnotes was:			
One	4%		2%
Two		1%	
Three	6	1	
Four	26	24	23
Five	18	27	15
Six or more	46	47	60
	100%	100%	100%
Number of companies disclosing loan captions in notes to financial statements	54	75	47

*Information was not accumulated for 1977

Table 18 indicates the percent of reports disclosing unearned interest. The percentage of survey companies disclosing unearned interest as a separate caption on the statement of condition increased to 59% in 1978 from 36% in 1977.

Table 18. Unearned Interest Disclosure

	Commercial Banks		Multi-bank Holding Companies		One-bank Holding Companies		Total Companies	
	78	77	78	77	78	77	78	77
Reports disclosing unearned interest:								
As a separate caption on the statement of condition	48%	28%	65%	39%	59%	38%	59%	36%
Parenthetical in statement of condition	10	12	11	11	8	9	10	11
In a footnote	28	27	15	30	17	23	19	27
	86	67	91	80	84	70	88	74
Reports making no disclosure of unearned interest	14	32	9	20	16	30	12	26
	100%	100%	100%	100%	100%	100%	100%	100%

Troubled debt restructuring

The following table indicates the comparative percentages of surveyed companies which disclosed information about troubled debt restructurings and the types of disclosures made. In 1978 approximately 88% of the disclosures related to loans and 12% related to investment securities, whereas in 1977, all such disclosure related to loans.

Table 19. Troubled Debt Restructurings

	Commercial Banks		Multi-bank Holding Companies		One-bank Holding Companies		Total Companies	
	78	77	78	77	78	77	78	77
Reports which:								
Disclosed restructurings	28%	32%	41%	49%	54%	55%	41%	47%
Did not disclose restructurings	72	68	59	51	46	45	59	53
	100%	100%	100%	100%	100%	100%	100%	100%
Percent of reports disclosing restructurings which included:								
The aggregate investment in modified loans	79%	47%	86%	81%	97%	83%		
The amount of interest income recognized	58	63	86	83	88	88		
The amount of interest which would have been recognized under original terms	58	5	90	42	85	46		
Commitments of additional funds to debtors restructured	32	74	52	88	53	80		
Number of reports disclosing restructurings	19	19	50	59	34	41		

Table 20 indicates companies disclosing the amount of nonaccrual loans in the notes to financial statements. It also indicates (for 1978 only) the percentages of survey companies which made disclosure of the amounts of interest income recognized and the amount which would have been recognized under original terms of these loans. Approximately 33% of the survey companies in 1978 combined their disclosures relating to nonaccrual loans with those relating to restructured debt.

Table 20. Nonaccrual Loans

	Commercial Banks		Multi-bank Holding Companies		One-bank Holding Companies		Total Companies	
	78	77	78	77	78	77	78	77
Reports disclosing:								
Amount of nonaccrual loans	48%	49%	58%	76%	65%	74%	57%	69%
Amount of interest income recognized from such loans	31	*	38	*	48	*	39	*
Amount of interest income which would have been recognized under the original terms of such loans	36	*	44	*	54	*	44	*

*Information was not accumulated for 1977

Table 21 analyzes disclosures made with respect to REIT loans.

Table 21. REIT Loans

	Commercial Banks		Holding Companies	
	78	77	78	77
Reports referring to REIT loans and stating that the company:				
Has loans to REIT	8%	18%	25%	45%
Does not have loans to REIT	8	2	4	4
	16	20	29	49
Reports not referring to REIT loans	84	80	71	51
	100%	100%	100%	100%
Reports with disclosure of REIT loans that:				
Disclosed amount of loans:				
Footnotes only	80%	40%	45%	28%
In report text only		40	26	35
In report text and footnotes			13	13
	80	80	84	76
Did not disclose amount of loans	20	20	16	24
	100%	100%	100%	100%
Disclosed amount of REIT loans on nonaccrual status:				
In footnotes only	60%	10%	21%	16%
In report text only	20	30	39	28
In report text and footnotes			4	7
	80	40	64	51
Did not disclose amount of REIT loans on nonaccrual status	20	60	36	49
	100%	100%	100%	100%
Disclosed amount of REIT loans at reduced rates:				
In footnotes only	20%	10%	8%	6%
In report text only	20	10	38	19
In report text and footnotes		10	4	2
	40	30	50	27
Did not disclose amount of REIT loans at reduced rates	60	70	50	73
	100%	100%	100%	100%
Disclosed swap with REIT				
In footnote only	20%		11%	5%
In report text only	20		34	9
In report text and footnotes	20			1
	60		45	15
Did not disclose swap with REIT	40	100	55	85
	100%	100%	100%	100%
Number of reports referring to existence of REIT loans	5	10	47	88
Reports which disclosed swap with REIT and:				
Disclosed method of valuing assets received in swap	66%		86%	38%
Did not disclose method of valuing assets received in swap	33		14	62
	100%		100%	100%
Number of reports disclosing swap with REIT	3		21	13

Table 22 contains several ratios relating to loans and loan losses which were developed in connection with the survey.

Table 22. Loan and Loan Loss Ratios

	Commercial Banks		Multi-bank Holding Companies		One-bank Holding Companies	
	78	77	78	77	78	77
Reports with ratio of valuation allowance to loans of						
Less than .50%	2%	2%		1%		
.50% to .74%	6	10	4%	3	5%	7%
.75 to .99%	39	42	36	30	36	25
1.00 to 1.24%	36	22	44	40	37	40
1.25 to 1.50%	10	12	10	17	14	20
More than 1.50%	7	12	6	9	8	8
	100%	100%	100%	100%	100%	100%
Reports with ratio of net chargeoffs to loans of						
Less than .40%	78%	55%	71%	58%	58%	46%
.40 to .69%	13	33	24	26	24	33
.70 to .99%	5	4	2	8	11	15
1.00 to 1.29%	3	2	1	3	2	4
1.30 to 1.50%			1	2	3	1
More than 1.50%	1	6	1	3	2	1
	100%	100%	100%	100%	100%	100%
Reports with ratio of equity to loans of						
Less than 5.0%		2%	1%		3%	1%
5.1 to 8.0%	12%	16	12	13%	19	19
8.1 to 11.0%	57	37	50	38	46	38
11.1 to 14%	22	30	27	32	26	30
14.1 to 17.0%	6	3	5	9	3	9
More than 17.0%	3	12	5	8	3	3
	100%	100%	100%	100%	100%	100%
Reports with ratio of net chargeoffs to operating income of						
Less than 2.0%	54%	48%	49%	33%	43%	28%
2.1 to 4.0%	34	26	36	42	25	42
4.1 to 6.0%	5	18	9	14	22	18
6.1 to 8.0%	7	3	4	5	5	11
8.1 to 10.0%		3	1	3	2	4
Over 10.0%		2	1	3	3	1
	100%	100%	100%	100%	100%	100%

Allowance for loan losses

In 1978 and 1977 all survey companies stated that their method of computing the provision for loan losses and the resulting allowance for loan losses was based upon managements' determination. In 1978 approximately 90% of survey companies disclosed the allowance for loan losses as a separate caption in the statement of condition. Six percent disclosed it parenthetically on the statement of condition and the remaining 4% disclosed it in the notes to financial statements.

The Securities and Exchange Commission's Guides 61 and 3 specify that an allocation of the allowance for loan losses to various loan categories be included in statistical disclosures contained in SEC filings. Although such an allocation is not required in the annual report to shareholders, in 1978 and 1977, 17% of the survey companies included this allocation in the report text.

Examples of disclosure of the allocation of the allowance for loan losses are presented in Section H. Table 23 shows the percentage of companies whose unallocated portion of the allowance for loan losses was equal to a specified percentage of the total allowance.

Table 23. Allowance for Loan Losses—Unallocated Portion

	Commercial Banks		Multi-bank Holding Companies		One-bank Holding Companies	
	78	77	78	77	78	77
Companies with an unallocated portion of the allowance which as a percent of the total allowance was:						
Less than 10%	16%		16%	14%	40%	38%
10 to 20%			22	17	15	6
21 to 30%	16	50%	22	28	15	32
31 to 40%	16	50	9	17	15	12
41 to 50%			9	10	15	6
Over 50%	52		22	14		6
	100%	100%	100%	100%	100%	100%
Number of companies included in this table	6	2	23	29	13	16

EXAMPLES Loans (separate note to financial statements)

FIRST INTERNATIONAL BANCSHARES, INC.

Loans and Valuation Reserves for Possible Loan Losses

Loans in the accompanying consolidated statement of condition are comprised of the following:

	December 31, 1978	December 31, 1977
Loan Classifications		
Commercial and Industrial	$1,931,584,000	$1,398,070,000
Loans to Financial Institutions	144,201,000	158,232,000
Loans for Purchasing or Carrying Securities	128,394,000	80,535,000
Real Estate--		
Interim Construction	337,529,000	238,490,000
Mortgage Warehousing	94,973,000	56,662,000
Other	523,328,000	393,916,000
Individuals for Household, Family and Other Consumer Purposes	706,876,000	551,652,000
International Loans	1,133,632,000	1,084,545,000
Other Loans	49,641,000	59,646,000
Total Loans	5,050,158,000	4,021,748,000
Less--Reserves for Possible Loan Losses	(48,044,000)	(38,794,000)
Net Loans	$5,002,114,000	$3,982,954,000

Loan portfolios are under continuing credit review. The adequacy of the reserves for possible loan losses is based on these reviews and current domestic and international economic conditions, composition of loan portfolios and other relevant factors. In the opinion of First International's management, the balance in the reserves for possible loan losses is adequate to absorb loan losses inherent in the loan portfolios.

The provision for loan losses charged against earnings is based upon management's judgment of the adequacy of the loan loss provisions and valuation reserves. The provisions for possible loan losses have been made on the basis of internal loan review procedures and in view of domestic and international economic conditions at the time.

Deferred U.S. income taxes have been provided on the accumulated loan loss provision for tax over financial reporting purposes. Unearned interest income on loans is deducted from loans.

The following is an analysis of the aggregate reserves for possible loan losses:

	Year Ended December 31, 1978	Year Ended December 31, 1977
Beginning Balance	$38,794,000	$35,168,000
Provisions Charged to Earnings	18,825,000	13,524,000
Loan Losses--		
Charge-offs	(14,065,000)	(13,991,000)
Recoveries	4,490,000	4,093,000
Net Loan Losses	(9,575,000)	(9,898,000)
Balance at End of Period	$48,044,000	$38,794,000

As of December 31, 1978, income is being recorded as collected on loans in the amount of $14,794,000 and is being accrued at the reduced average annualized rate of 3.3% on loans in the amount of $3,832,000. Real estate acquired through foreclosure and recorded in real estate held for resale at net estimated realizable value based on current appraisals amounts to $15,841,000 or 0.2% of total assets. The effect of these items and the reversal of previously accrued interest on income before securities transactions is $2,604,000 or $0.13 per share in 1978, and $2,981,000 or $0.15 per share in 1977. The placing from time to time of particular loans on non-accrual of interest income and the acquisition of real estate held for resale through loan default are inherent in the business of banking.

CITICORP

Commercial Loans

Commercial Loans Outstanding

	1978	1977
	(In Thousands at Year End)	
In domestic offices		
Commercial and industrial	$ 8,074,098	$ 7,767,670
Mortgage and real estate*	1,155,263	1,146,090
Real estate investment trusts	238,317	416,089
Loans to financial institutions	962,517	1,643,904
Loans for purchasing or carrying securities	424,950	642,918
Other loans	1,312,162	1,030,033
	$12,167,307	$12,646,704
In overseas offices	30,940,767	26,891,443
	$43,108,074	$39,538,147
Unearned discount	(205,480)	(164,305)
Reserve for possible losses on commercial loans	(303,858)	(241,679)
Commercial loans, net	$42,598,736	$39,132,163

*Includes only loans secured primarily by real estate.

Average Commercial Loans in Overseas Offices, Net of Unearned Discount*

	1978	1977
	(In Millions)	
Financial institutions	$ 1,030	$ 858
Other resident businesses	11,940	10,095
Major multinational corporations	6,170	5,395
Public sector**	7,280	6,278
Real estate	1,465	1,325
	$27,885	$23,951

*As available, daily or monthly averages have been used.

**Public sector loans include loans to national governments and their agencies, central banks or monetary authorities, state and municipal governments and their agencies and government-owned and managed corporations or enterprises.

Changes in the Reserve for Possible Losses on Commercial Loans

	1978	1977
	(In Thousands)	
Balance at beginning of year	$241,679	$251,923
Loan losses	$191,949	$234,779
Loan recoveries	80,196	33,581
Net loan losses	$111,753	$201,198
Provision for possible losses on commercial loans	$170,936	$188,224
Other additions (principally adjustments relating to the translation of overseas balances)	2,996	2,730
	$173,932	$190,954
Balance at end of year	$303,858	$241,679

It is the opinion of management that the reserve for possible losses on commercial loans is adequate to absorb all losses anticipated from the commercial loan portfolio as of December 31, 1978.

Nonperforming loans include nonaccrual and renegotiated loans. Renegotiated loans are those commercial loans on which the rate of interest has been reduced as a result of the inability of the borrower to meet the original terms of the loan. Citicorp's nonperforming loans amounted to $1,356,000,000 and $1,669,000,000 at December 31, 1978 and 1977, respectively. Foregone revenue from nonperforming loans was as follows:

	1978	1977
	(In Millions)	
Interest income that would have been accrued at original contractual rates	$185	$182
Amount recognized as interest income	64	38
Foregone revenue	$121	$144

Consumer Loans

Consumer Loans Outstanding

	1978	1977
	(In Thousands at Year End)	
In domestic offices		
Mortgage and real estate*	$ 1,895,930	$ 1,161,206
Other	5,372,096	2,713,586
	$ 7,268,026	$ 3,874,792
In overseas offices	4,018,034	3,192,082
	$11,286,060	$ 7,066,874
Unearned discount	(1,481,978)	(988,874)
Allowance for consumer credit losses	(103,400)	(76,700)
Consumer loans, net	$ 9,700,682	$ 6,001,300

*Includes only loans secured primarily by real estate.

Average Consumer Loans in Overseas Offices, Net of Unearned Discount**

	1978	1977
	(In Millions)	
Mortgage and real estate*	$ 563	$ 455
Other	2,486	1,925
	$3,049	$2,380

*Includes only loans secured primarily by real estate.
**Averages which have been used are daily or monthly, as available.

Detail of Consumer Credit Loss Expense

	1978	1977
	(In Thousands)	
Loan losses	$150,200	$93,000
Loan recoveries	56,300	38,500
Net loan losses	$ 93,900	$54,500
Adjustment to reflect recent portfolio growth and additional potential losses	20,900	17,500
Consumer credit loss expense	$114,800	$72,000

The allowance for consumer credit losses at the beginning of 1977 was $59,200,000. The increase in the allowance during 1978 included $5,800,000 representing balances of acquired companies.

It is the opinion of management that the balance in the allowance for consumer credit losses is adequate to absorb all losses anticipated from the consumer loan portfolio as of December 31, 1978.

CULLEN/FROST BANKERS, INC.

Loans

The subsidiaries of the Corporation may, from time to time, extend lines of credit. Such lines are conditional promises to lend, which are expressly conveyed to their customers. The terms of the lines vary with customers, and the credit worthiness of each line is periodically reviewed. It is not anticipated that the total amount of the lines extended will be converted to loans at any one point in time.

	Outstanding Loans		Unused Commitments
	December 31		December 31,
	1978	1977	1978
	(In thousands of dollars)		
Real estate	$169,252	$124,838	$ 54,680
Financial institutions	37,144	31,459	78,021
Purchasing or carrying securities	65,182	65,913	3,795
Farming	10,804	11,700	100
Commercial and industrial	328,419	258,871	125,058
Consumer	193,961	148,532	88,014
Other	41,229	29,562	3,516
Total	$845,991	$670,875	$353,184

The unused commitments extended to consumers are in conjunction with credit card lines.

In addition to the above commitments, the subsidiary banks issue letters of credit in the normal course of business. The banks are committed to provide funds upon presentation of such letters of credit. At December 31, 1978, the total outstanding letters amounted to $23,083,000, including total outstanding standby letters of credit of $16,657,000. Each customer to whom a letter of credit is extended is reviewed for credit worthiness in the same manner as other loan customers.

The following summary provides data on non-performing loans:

	Non-Accrual		Restructured		Foreclosed		Sixty Days Past Due	
	1978	1977	1978	1977	1978	1977	1978	1977
Aggregate loan amounts	$6,108	$7,861	$2,120	$4,013	$2,717	$6,801	$6,253	$3,356
Amount of interest income which would have been recorded under original terms	543	664	265	340	343	561	594	219
Amount of interest income actually recorded during the period	-	302	265	181	-	124	594	219

Non-accrual loans are those on which the collectibility of the full amount of the interest is in question, but management deems the principal to be substantially collectible. As such, interest is recognized only as received.

Restructured loans are those whereby a debtor was granted a concession in the interest rate or a concession in other terms of the original loan agreement.

Collateral acquired through foreclosure is considered to be a non-performing asset, and the carrying value of such collateral, primarily real estate, is included in other assets.

Sixty day past due loans are loans which are contractually past due sixty days or more as to interest or principal.

There are no material commitments to extend additional funds to any borrower whose loan was included in the non-performing category.

EXAMPLES Disclosure of loan categories in the statement of condition

FIRST NATIONAL BANK OF NEW JERSEY

	December 31	
	1978	1977
Loans:		
Commercial	102,494,335	96,363,775
Mortgage	179,455,886	176,311,046
Installment (net of unearned income: 1978, $14,109,716; 1977, $12,355,737)	163,304,540	136,969,088
Total Loans	445,254,761	409,643,909
Less: Reserve for possible loan losses	4,110,356	4,156,937
Net loans	441,144,405	405,486,972

FIRST WISCONSIN CORPORATION

	December 31		Average Balances (Unaudited)	
	1978	1977	1978	1977
	(Thousands of Dollars)			
Loans:				
Business Loans:				
Commercial Short-Term	373,415	340,306	353,271	289,366
Commercial Term	256,150	241,079	248,825	229,103
International:				
Domestic Offices	347,751	293,496	294,577	267,601
Foreign Office	79,617	70,425	82,530	81,072
Acceptances Discounted	63,342	50,731	62,814	56,065
Construction	35,951	32,978	29,281	49,744
Income Property	143,511	93,972	125,268	99,389
Other	144,683	124,102	120,118	104,399
Total Business Loans	1,444,420	1,247,089	1,316,684	1,176,739
Individual Loans:				
Installment	241,189	198,763	197,714	158,113
Charge Card	193,613	140,244	148,198	113,428
Residential Mortgages	432,754	371,553	403,262	346,448
Other	120,952	115,257	113,622	105,235
Total Individual Loans	988,508	825,817	862,796	723,224
Total Loans	2,432,928	2,072,906	2,179,480	1,899,963
Less: Unearned Discount	33,639	27,083		
Reserve for Possible Losses on Loans	2[illegible],318	22,637	24,262	23,219
Loans, Net	2,372,971	2,023,186	2,155,218	1,876,744

CENTRAN CORPORATION

	December 31, 1978	December 31, 1977
	(in thousands of dollars)	
Earning Assets:		
Commercial Loans	$ 702,242	$ 574,767
Installment Loans	309,004	255,314
Portfolio Mortgage Loans	280,647	254,899
	1,291,893	1,084,980
Less Allowance for Loan Losses	18,306	18,109
Net Loans	1,273,587	1,066,871

EXAMPLES Disclosure of loan categories which conform to Article 9 of Regulation S-X in the statement of condition

DOMINION BANKSHARES CORPORATION

	December 31 1978	1977
Loans:		
Commercial, financial, and agricultural	346,177	302,787
Real estate--construction	49,467	39,797
Real estate--mortgage	440,397	383,281
Installment	402,787	339,071
Total loans	1,238,828	1,084,936
Less unearned income	67,886	55,411
Loans, net of unearned income	1,170,942	1,029,525
Less reserve for loan losses	12,475	8,752
Loans, net	1,158,467	1,020,773

GREATER JERSEY BANCORP

Loans:		
Commercial and financial	135,689,543	140,200,652
Real estate--construction	6,068,009	14,065,962
Real estate--mortgage	248,386,228	223,128,871
Installment	123,470,256	119,065,691
Foreign	11,750,409	32,003,322
Total loans	525,364,445	528,464,498
Less:		
Reserve for possible loan losses	6,529,318	4,546,206
Unearned discount	19,667,309	17,943,639
Net loans	499,167,818	505,974,653

MICHIGAN NATIONAL CORPORATION

	December 31 1978	1977
Loans		
Commercial, financial, and agricultural	997,867,000	954,409,000
Real estate--mortgage	1,025,667,000	1,009,022,000
Real estate--construction	111,883,000	94,206,000
Installment	1,125,886,000	880,950,000
Total Loans	3,261,303,000	2,938,587,000
Unearned income	(16,877,000)	(35,701,000)
	3,244,426,000	2,902,886,000
Allowance for possible loan losses	(16,321,000)	(11,800,000)
	3,228,105,000	2,891,086,000

EXAMPLES Disclosure of loan categories which conform to Article 9 of Regulation S-X in notes to financial statements

CENTURY BANKS, INC.

Loans

A summary (in thousands) of loans at December 31, 1978 and 1977 follows:

	1978	1977
Commercial, financial and agricultural	$ 95,881	$ 75,704
Real estate--construction	12,977	12,367
Real estate--mortgage	155,531	142,087
Installment	124,945	116,520
Foreign	-	-
	389,334	346,678
Unearned income	(14,080)	(11,804)
Loans net of unearned income	$375,254	$334,874

NORTHWESTERN FINANCIAL CORPORATION

Loans

Loans at December 31, 1978, and 1977 are summarized as follows:

	1978 (in thousands)	1977
Bank:		
Commercial, financial and agricultural	$ 213,296	$213,518
Real estate--construction	48,969	46,209
Real estate--mortgage	317,346	261,747
Consumer	360,654	304,167
Other	20,249	28,300
Total Bank	960,514	853,941
Finance receivables of finance company subsidiary	45,209	41,282
Receivables of mortgage banking subsidiary, principally residential mortgage loans held for sale	12,905	7,532
Receivables of factoring subsidiary	7,153	9,449
Other	313	10,116
Total	$1,026,094	$922,320

LINCOLN FIRST BANKS, INC.

Loans

Loans and direct lease financing as of year end were as follows (in thousands):

1978	Gross	Unearned Income	Net
Loans:			
Commercial, financial and agricultural	$ 680,003	$ 2,264	$ 677,739
Real estate--construction	80,882		80,882
Real estate--mortgage	538,334	86	538,248
Installment	552,812	46,126	506,686
Foreign	46,399	99	46,300
	1,898,430	48,575	1,849,855
Direct lease financing	58,952	11,640	47,312
	$1,957,382	$60,215	$1,897,167

1977	Gross	Unearned Income	Net
Loans:			
Commercial, financial and agricultural	$ 612,000	$ 1,929	$ 610,071
Real estate--construction	62,878		62,878
Real estate--mortgage	529,376	54	529,322
Installment	502,808	40,224	462,584
Foreign	49,790	243	49,547
	1,756,852	42,450	1,714,402
Direct lease financing	44,815	8,674	36,141
	$1,801,667	$51,124	$1,750,543

RAINIER BANCORPORATION

Loans--Certain detail regarding loans, excluding intercompany borrowings, at December 31 is as follows:

	1978			
	Bank	Mortgage Company	Credit Company	Consolidated
	(In Thousands of Dollars)			
Loans:				
Commercial and Other	$ 998,796	$ -	$ -	$ 998,796
Real Estate	466,223	109,409	-	575,632
Installment and Charge Card	703,023	-	95,673	798,696
Foreign	402,199	-	-	402,199
Total	$2,570,241	$109,409	$95,673	$2,775,323

	1977			
	Bank	Mortgage Company	Credit Company	Consolidated
	(In Thousands of Dollars)			
Loans:				
Commercial and Other	$ 888,116	$ -	$ -	$ 888,116
Real Estate	413,925	85,433	-	499,358
Installment and Charge Card	523,315	-	76,024	599,339
Foreign	347,719	-	-	347,719
Total	$2,173,075	$85,433	$76,024	$2,334,532

EXAMPLES Disclosure of loan categories which conform to bank regulatory classification in notes to financial statements

NATIONAL BANK OF WASHINGTON, D.C.

Loans

The following schedule reflects the composition of the Bank's loan portfolio as of December 31, 1978 and 1977.

	1978	1977
Real estate loans:		
Insured or guaranteed by the U.S. Government or its agencies	$ 2,020,400	$ 2,204,728
Other	127,364,400	105,932,561
Loans to financial institutions	47,387,704	58,017,128
Loans for purchasing or carrying securities (secured or unsecured)	2,466,866	4,936,064
Commercial and industrial loans	148,551,467	147,968,681
Loans to individuals for household, family and other consumer expenditures	72,857,967	65,583,789
Foreign office loans	47,442,033	41,669,359
All other loans (including overdrafts)	19,141,089	10,540,708
Less unearned discount	(2,824,309)	(2,993,213)
Total Loans Outstanding	$464,407,617	$433,859,805

LANDMARK BANKING CORPORATION OF FLORIDA

Loans

The detail of loans as of December 31, 1978 and 1977, is as follows:

	1978 (in thousands)	1977
Real estate loans:		
Construction and land development	$ 16,614	$ 11,629
Secured by farmland	239	192
Secured by 1-4 family residential properties		
Insured by FHA or guaranteed by VA	50,326	42,133
Conventional	46,801	42,839
Secured by multi-family residential properties--Conventional	203	323
Secured by nonfarm nonresidential properties	68,806	55,700
Loans to financial institutions:		
To real estate investment trusts and mortgage companies	5,266	5,601
To domestic commercial banks	300	370
To other financial institutions	5,869	244
Loans for purchasing or carrying securities	$ 829	$ 1,954
Loans to farmers	767	782
Commercial and industrial loans	108,037	88,715
Loans to individuals for household, family and other personal expenditures:		
To purchase private passenger automobiles on installment basis	101,904	65,837
Credit cards and related plans		
Retail credit card plans	27,188	23,613
Check credit and revolving credit plans	41	107
To purchase other retail consumer goods on installment basis		
Mobile homes	15,392	14,217
Other retail consumer goods	7,386	8,378
Installment loans to repair and modernize residential property	14,646	9,390
Other installment loans for household, family, and other personal expenditures	27,804	26,905
Single payment loans for household, family, and other personal expenditures	36,506	34,800
All other loans	6,668	3,953
Total loans, gross	541,592	437,682
Less: Unearned income on loans	23,139	16,212
Total Loans	$518,453	$421,470

EXAMPLES Loans—excerpt from summary of accounting policies

UNITED VIRGINIA BANKSHARES, INCORPORATED

Loans and Financing: Loans are stated at their principal amount outstanding reduced by unearned income, which arises principally from discount basis instalment loans.

Interest on instalment loans and most second mortgage loans is accrued based upon the sum-of-the-months-digits method (78th's method). Interest on all other major categories of loans and financing is accrued by multiplying applicable rates by the principal amount outstanding. Equipment leases by a bank-related subsidiary are generally accounted for under the direct financing method for financial reporting purposes.

Interest is not accrued, but recognized on the cash basis, for all loans carried in non-accrual status. Loans are placed in non-accrual status when the collection of principal or interest is 90 days or more past due, or earlier if payment is questionable. Payments may be deemed questionable if the net realizable value of the collateral and the financial strength of the borrower are considered insufficient to recover the Corporation's recorded investment. However, the classification of a loan as non-accrual for the purpose of determining interest income recognition should not be considered a judgment by management that the principal will not be ultimately collected.

Accrued interest receivable related to non-accrual loans is charged against the allowance for possible credit losses when deemed uncollectible.

COMMERCE BANCSHARES, INC.

Loans

Interest on commercial, real estate and credit card loans is credited to operating income based upon the principal amount outstanding. Interest on consumer installment loans is credited to operating income using primarily the rule of seventy-eights method. The accrual of interest on loans is discontinued when, in management's judgment, the interest will not be collectible in the normal course of business.

FIDELITY UNION BANCORPORATION

Loans. Loans are generally carried at the principal amount outstanding. Unearned discount on discounted loans is deducted from loans and is generally reflected in income using the "rule of 78ths" method which recognizes interest in proportion to the outstanding principal. Interest is accrued monthly as earned on non-discounted loans except when a loan becomes past due and doubt exists as to the ultimate collection of principal or interest, in which case the accrual of income is discontinued and income earned is recognized at the time payment is received. In addition, any previously accrued but unpaid interest on such loans is charged against current earnings. Generally, a loan is considered past due when payment for principal or interest has not been received for a period of ninety days.

CITIZENS COMMERCIAL & SAVINGS BANK

Loans

Loans are stated at principal balances outstanding including unearned discount on consumer installment and certain other loans. Income on installment loans is recognized under the sum-of-the-months-digits method producing a level rate of return over the life of the loans. It is the policy of the Bank to stop accruing and to place the recognition of interest income on a cash basis when a commercial or mortgage loan is in arrears for 120 days or more except for insured mortgages where one-third of such interest is not accrued. When interest accruals are stopped, interest receivable which had been previously credited to income is reversed.

CENTRAL BANCSHARES OF THE SOUTH, INC.

Loans

All loans are stated at principal outstanding net of unearned income and allowance for possible loan losses. Interest income on discount basis installment loans is recognized on the sum-of-the-months-digits method. Interest income on other loans is credited to income based primarily on the principal outstanding at appropriate rates of interest.

It is the general policy of the Corporation's subsidiary banks to stop accruing interest income and place the recognition of the interest on a cash basis when any commercial and industrial or real estate loan is past due as to principal or interest, or both, for more than ninety days. Accrual of interest income on installment loans is suspended when any payment of principal or interest, or both is more than one hundred and twenty days delinquent. When a loan is placed on a cash basis, any interest previously accrued but not collected is reversed against current earnings.

EXAMPLES Allowance for loan losses--excerpt from summary of accounting policies

FIRST WISCONSIN CORPORATION

Reserve for Possible Losses on Loans--The reserve for possible losses on loans is maintained at a level adequate to provide for potential loan losses through charges to operating expense. The reserve is based upon a continuing review of loans which includes consideration of actual net loan loss experience and changes in the size and character of the loan portfolio, identification of problem situations which may affect the borrower's ability to repay, and evaluation of current economic conditions. Loan losses are recognized through charges to the reserve. Installment and charge card loan balances are charged to the reserve based upon fixed delinquency periods. All other loans are evaluated individually and charged to the reserve to the extent that outstanding principal balances are deemed uncollectible. Any subsequent recoveries are added to the reserve.

IDAHO FIRST NATIONAL BANK

ALLOWANCE FOR LOAN LOSSES represents management's recognition of the assumed risks of extending credit and the quality of the loan portfolio. Although it is not possible to anticipate loan losses with complete accuracy, the evaluation of the quality of the loan portfolio considers the borrower's management, financial condition, cash flow and repayment program, as well as the existence of collateral and guarantees. In addition, external business and economic factors beyond the borrowers control combined with the Bank's previous loan loss experience are considered in management's evaluation of the provision for loan losses charged to operations and the level of the allowance for loan losses. For income tax purposes, the Bank takes the maximum allowable deduction permitted by the Internal Revenue Code.

CENTRAL BANCSHARES OF THE SOUTH, INC.

Allowance for Possible Loan Losses

The amount of the provision for possible loan losses charged to earnings is determined on the basis of several factors, including actual loss experience, current and expected economic conditions and periodic examinations and appraisals of the loan portfolio. Such provision, less net loan charge-offs, comprises the allowable for possible loan losses which is deducted from loans and is available for future loan losses.

The Corporation's subsidiary banks follow the policy of charging off loans determined to be uncollectible by management, the Corporation's loan examination division or Federal bank supervisory authorities. Subsequent recoveries are credited to the allowance.

Real estate acquired through foreclosure is carried at the lower of acquisition cost or fair value. Any write-down required from the amount receivable to acquisition cost or fair value at the time of foreclosure is charged to the allowance for possible loan losses. Subsequent gains or losses on the sale or losses from the periodic valuation of these properties are charged or credited to earnings.

CITIZENS COMMERCIAL & SAVINGS BANK

Reserve for Loan Losses

For financial reporting purposes, the provision for loan losses charged to operating expenses is based upon a credit review of the loan portfolio, past loan loss experience, current economic conditions and other pertinent factors which form a basis for determining the adequacy of the Reserve. For tax purposes, the Bank follows a general policy of providing additions to the Reserve for Loan Losses in accordance with maximum amounts allowed under applicable tax laws.

EXAMPLES Allowance for losses--reconciliation of activity (separate note to financial statements)

LINCOLN FIRST BANKS, INC.

Reserves for Possible Losses

Transactions in the reserves for possible losses were as follows (in thousands):

	Reserves			
	Loans	Direct Lease Financing	Other Real Estate Owned	Total
Balance as of January 1, 1977	$15,820	$575		$16,395
Provision charged to expense	8,778	457	$ 653	9,888
Losses:				
Commercial, financial and agricultural	4,983			4,983
Real estate--mortgage	529			529
Instalment	5,846			5,846
Direct lease financing		558		558
Total losses	11,358	558		11,916
Recoveries:				
Commercial, financial and agricultural	870			870
Real estate--mortgage	24			24
Instalment	2,477			2,477
Direct lease financing		54		54
Total recoveries	3,371	54		3,425
Balance as of December 31, 1977	16,611	528	653	17,792
Provision charged to expense	9,312	218	948	10,478
Losses:				
Commercial, financial and agricultural	4,158			4,158
Real estate--mortgage	270			270
Instalment	4,673			4,673
Direct lease financing		169		169
Other real estate owned			1,088	1,088
Total losses	9,101	169	1,088	10,358
Recoveries:				
Commercial, financial and agricultural	630			630
Real estate--mortgage	74			74
Instalment	2,249			2,249
Direct lease financing		71		71
Total recoveries	2,953	71		3,024
Balance as of December 31, 1978	$19,775	$648	$ 513	$20,936

DETROITBANK CORPORATION

Reserve for Loan Losses

An analysis of transactions in the reserve is presented as follows:

	1978	1977
Balance--January 1	$24,016,000	$19,686,000
Provision for loan losses	4,000,000	3,500,000
Reserve of an acquired bank	-	1,226,000
Recoveries	1,432,000	3,543,000
Loan charged off	(3,927,000)	(3,939,000)
Balance--December 31	$25,521,000	$24,016,000

For federal income tax purposes the reserve for loan losses was $33,211,000 and $32,847,000 at December 31, 1978 and 1977, respectively. The difference between these amounts and the amounts reported in the consolidated financial statements represents the net additional amount allowed in filing federal income tax returns.

NORTHWEST OHIO BANCSHARES, INC.

RESERVE FOR LOAN LOSSES

	Year Ended December 31	
	1978	1977
Balance at beginning of year	$2,207,000	$2,233,000
Purchased bank's reserve at date of acquisition	40,255	
Provision charged to operating expense	1,518,170	924,733
Recoveries of charged-off loans	580,673	279,037
Loans charged off	(1,649,098)	(1,229,770)
Balance at end of year	$2,697,000	$2,207,000

() Indicates deduction

The reserve for loan losses for federal income-tax purposes was $5,396,700 and $5,163,300 on December 31, 1978 and 1977 respectively. The difference between these amounts and those reported above represent additional provisions for loan losses as permitted in filing federal income-tax returns.

FIRST PEOPLES BANK OF NEW JERSEY

Changes in the reserve for loan losses during the years ended December 31, 1978 and 1977, were as follows:

	1978	1977
Balances at beginning of year	$3,480,847	$2,346,027
Provision charged to operating expense	1,493,280	1,645,278
Reserve for loan losses of acquired bank	-0-	535,862
Recoveries of loans previously charged-off	277,936	295,395
Loan charge-offs	(1,608,060)	(1,341,715)
BALANCES AT END OF YEAR	$3,644,003	$3,480,847

The reserve for loan losses for federal income tax purposes is approximately $3,940,000 at December 31, 1978.

FIRST AMERICAN BANK CORPORATION

Reserve for Loan Losses

An analysis of transactions in the reserve is presented as follows:

	Year Ended December 31,	
	1978	1977
Balance, beginning of period	$ 8,217,440	6,794,090
Additions:		
Provision charged against income	2,937,041	2,228,068
Valuation reserves of acquired banks	116,617	560,857
Recoveries	789,085	760,606
	12,060,183	10,343,621
Less loans charged-off	2,296,357	2,126,181
Balance, end of period	$ 9,763,826	8,217,440

As in the past, management evaluated the loan portfolio and determined that the balance in the reserve is adequate in light of the composition of the loan portfolio, economic conditions and other pertinent factors.

UNION PLANTERS CORPORATION

Allowances for Losses on Loans and Foreclosed Properties

The following schedule summarizes the changes in the allowances for losses on loans and foreclosed properties for the years ended December 31, 1977 and 1978:

	Allowances for losses on		
	Loans	Foreclosed Properties	Total
Balance, January 1, 1977	$ 7,425,726	2,711,915	10,137,641
Provision charged to operating expenses	4,115,000	-	4,115,000
Transfers between allowances	(3,347,500)	3,347,500	-
Recoveries	2,193,457	-	2,193,457
Amounts charged off	(4,181,420)	(3,748,023)	(7,929,443)
Balance, December 31, 1977	6,205,263	2,311,392	8,516,655
Provision charged to operating expenses	5,701,227	-	5,701,227
Transfers between allowances	(1,082,948)	1,082,948	-
Recoveries	3,166,363	-	3,166,363
Amounts charged off	(4,733,022)	(1,867,683)	(6,600,705)
Balance, December 31, 1978	$ 9,256,883	1,526,657	10,783,540

In management's opinion, the allowances are adequate to absorb losses which may result from the loan portfolio and foreclosed properties at December 31, 1978.

EXAMPLE--Allowance for losses--separate statement

BANK OF VIRGINIA COMPANY

	Year Ended December 31			
	1978		1977	
	Banks	Bank Related	Banks	Bank Related
Balance at beginning of year	$ 9,607,950	$5,674,038	$8,908,290	$6,061,042
Transfer from allowance to evaluate foreclosed properties				830,000
Provision charged to expense	8,327,800	3,612,606	6,801,150	3,855,223
Recoveries:				
Commercial	828,913	345,575	274,685	287,736
Credit card	2,166,447		1,326,971	
Other consumer	309,685	67,005	406,786	67,240
Total recoveries	3,305,045	412,580	2,008,442	354,976
Less losses:				
Commercial	2,830,461	4,514,377	2,470,178	4,782,432
Credit card	6,325,886		4,546,311	
Other consumer	1,182,946	724,625	1,093,443	644,771
Total losses	10,339,293	5,239,002	8,109,932	5,427,203
Balance at end of year	$10,901,502	$4,460,222	$9,607,950	$5,674,038

EXAMPLES Disclosure of nonperforming loans (separate note to financial statements unless otherwise indicated)

FIRST COMMERCE CORPORATION

Restructured Assets

The Corporation has restructured various of its loans as a result of financial difficulties of the borrowers. The following is a summary of the balances outstanding for each category of restructured assets, the interest that would have been earned at the original contractual rate and interest earned in accordance with the terms of the restructuring. The summary also includes the cost to carry foreclosed assets and the operating costs, net of the related revenue earned on these assets during the holding period.

	December 31,	
	1978	1977
Balances outstanding (in thousands):		
Loans:		
Non-accrual loans	$ 7,944	$ 7,086
Reduced rate loans	2,451	2,887
Foreclosed assets:		
Real estate subject to contracts of sale	12,195	12,170
Other real estate	3,049	4,938
Total	$25,639	$27,081
Effect on pre-tax income (in thousands):		
Loans:		
Contractual interest income	$ 1,587	$ 1,499
Income received on reduced rate and non-accrual loans	(167)	(230)
Decrease in interest on loans	1,420	1,269
Foreclosed assets:		
Cost of operations (income)	217	(24)
Interest cost (average purchased funds rate)	1,225	693
Cost to carry foreclosed assets	1,442	669
Total effect on pre-tax income	$ 2,862	$ 1,938

During 1976 the Corporation foreclosed on loans collateralized by a shopping center located in the New Orleans area. Simultaneously with the foreclosure, the Corporation sold its interest in the shopping center to a real estate development corporation. The terms of the sale do not meet the minimum downpayment requirement for accounting recognition as a sale and accordingly, the loan advanced to the purchaser has been classified as "real estate subject to contracts of sale". All interest received on the loan will be treated as a deposit (a reduction in the loan balance) rather than as income until such time as the minimum down payment accounting requirement has been satisfied. Assuming interest is paid as agreed in the sale agreement, the shopping center will be classified as an earning asset by 1981.

The Corporation has an outstanding commitment of $558,000 at December 31, 1978 to complete construction and tenant improvements on the shopping center.

FIRST & MERCHANTS CORPORATION

Loans and Allowance for Possible Loan Losses:

A summarization of the loan portfolio in thousands of dollars (net of unearned income of $55,235 in 1978 and $44,539 in 1977) is as follows:

	1978	1977
Commercial	$ 429,313	$ 382,387
Installment	210,361	184,903
Mortgage	364,234	303,764
Construction	77,248	90,969
Bank card	104,078	88,801
Direct financing leases	22,313	20,562
Other	28,626	24,784
	1,236,173	1,096,170
Less allowance for possible loan losses	14,432	14,213
	$1,221,741	$1,081,957

The following tables present the amount of non-accruing loans and reduced-earning loans (those loans for which the interest rate has been reduced substantially below prevailing market rates) included in the loan portfolio at December 31, 1978 and 1977 and the average amount of such loans throughout the two years, in millions of dollars. In addition, other real estate which is included in other assets in the accompanying consolidated statement of condition is presented in the table opposite the loan category from which it originated.

	December 31, 1978							
	Balance At End Of Year				Average For The Year			
	Non-accruing Loans	Reduced-earning Loans	Other Real Estate	Total	Non-accruing Loans	Reduced-earning Loans	Other Real Estate	Total
Commercial	$ 9.6	$1.9	$1.2	$12.7	$ 9.8	$ 2.0	$1.2	$13.0
REIT	3.9	2.8	1.2	7.9	8.4	6.4	.6	15.4
Construction	17.0	.3	4.1	21.4	18.0	1.6	5.6	25.2
Mortgage	.2	.9	.7	1.8	.4	1.0	.9	2.3
	$30.7	$5.9	$7.2	$43.8	$36.6	$11.0	$8.3	$55.9

	December 31, 1977							
	Balance At End Of Year				Average For The Year			
	Non-accruing Loans	Reduced-earning Loans	Other Real Estate	Total	Non-accruing Loans	Reduced-earning Loans	Other Real Estate	Total
Commercial	$ 9.3	$ 2.0	$1.5	$12.8	$ 9.4	$ 2.0	$ 1.5	$12.9
REIT	6.4	14.3	.3	21.0	6.7	14.8	.3	21.8
Construction	19.8	1.4	6.2	27.4	21.3	1.3	7.7	30.3
Mortgage	.1	.9	1.2	2.2	1.6	.9	1.4	3.9
	$35.6	$18.6	$9.2	$63.4	$39.0	$19.0	$10.9	$68.9

The following table presents the amount of additional interest income which would have been recorded in 1978 and 1977 from non-accruing and reduced-earning loans if all such loans had been current and in accordance with their original terms.

	1978		1977	
	Non-accruing Loans	Reduced-earning Loans	Non-accruing Loans	Reduced-earning Loans
	(thousands of dollars)			
Per original terms:				
Commercial	$ 890	$ 181	$1,111	$ -
REIT	821	702	505	1,257
Construction	2,233	26	2,350	338
Mortgage	41	93	6	90
	3,985	1,002	3,972	1,685
Amount actually taken into income	(1,355)	(219)	(786)	(456)
Interest lost	$2,630	$ 783	$3,186	$1,229

Transactions in the allowance for possible loan losses for the years ended December 31, 1978 and 1977 are summarized below:

	1978	1977
	(thousands of dollars)	
Balance at beginning of year	$14,213	$13,806
Recoveries credited to allowance	2,015	1,201
Provision charged to expense	6,200	6,602
Total	22,428	21,609
Losses charged to allowance	(7,996)	(7,396)
Balance at end of year	$14,432	$14,213

SOUTHEAST BANKING CORPORATION
(Excerpt from separate note)

The following tables indicate for the categories of loans specified (i) the aggregate amounts of such loans outstanding at the end of the period (ii) the gross amount of interest income which would have been recorded in accordance with the original terms of the loans (iii) the amount of interest which was recorded in income and (iv) commitments to lend additional funds on such loans. (In thousands.)

	Year Ended December 31, 1978			
	Aggregate Recorded Investment	Amount Of Interest Income Which Would Have Been Recorded	Amount Of Interest Which Was Recorded In Income	Amount Of Commitments To Lend Additional Funds
Loans on which interest accruals have been discontinued	$31,200	$4,163	$1,339	$1,927
Loans,* the terms of which have been modified due to the debtors' financial difficulties	$44,221	$4,787	$2,951	$2,316

	Year Ended December 31, 1977			
	Aggregate Recorded Investment	Amount Of Interest Income Which Would Have Been Recorded	Amount Of Interest Which Was Recorded In Income	Amount Of Commitments To Lend Additional Funds
Loans on which interest accruals have been discontinued	$67,800	$6,564	$ 919	$ 977
Loans,* the terms of which have been modified due to the debtors' financial difficulties	$38,990	$3,198	$1,932	$ 633

*Excludes real estate loans secured by 1-4 family residential properties and loans to individuals for household, family and other personal expenditures.

FIRST NATIONAL HOLDING CORP.

Loans

The following table presents information concerning the Company's restructured loans net of unearned income in thousands of dollars:

	December 31					
	1978			1977		
	Cash-basis	Renegotiated	Total	Cash-basis	Renegotiated	Total
Banking Subsidiaries	$26,267	$10,720	$36,987	$28,053	$25,323	$53,376
Finance Subsidiaries	4,909	-	4,909	6,556	461	7,017
	$31,176	$10,720	$41,896	$34,609	$25,784	$60,393

The Company has outstanding commitments of approximately $2,600,000 at December 31, 1978, to lend additional funds to debtors owing the cash-basis and renegotiated loans.

The approximate impact on interest income of restructured loans is shown below in thousands of dollars. It should be recognized that the rates used in determining the gross amount of interest that would have been accrued at the original terms are not necessarily attainable in the current market.

	Year Ended December 31					
	1978			1977		
	Cash-basis	Renegotiated	Total	Cash-basis	Renegotiated	Total
Gross amount of interest that would have been accrued at original terms						
Banking Subsidiaries	$3,225	$2,083	$5,308	$3,828	$2,834	$6,662
Finance Subsidiaries	422	-	422	929	107	1,036
	3,647	2,083	5,730	4,757	2,941	7,698
Interest recognized						
Banking Subsidiaries	(64)	(569)	(633)	(25)	(1,065)	(1,090)
Finance Subsidiaries	(2)	-	(2)	(43)	(53)	(96)
	(66)	(569)	(635)	(68)	(1,118)	(1,186)
Reduction in interest income	$3,581	$1,514	$5,095	$4,689	$1,823	$6,512

FULTON NATIONAL CORPORATION

Non-Performing Loans

The following table presents information concerning non-performing loans which comprise (a) loans which are contractually past due sixty days or more as to interest or principal payments and (b) other loans whose terms have been renegotiated to provide a reduction or deferral of interest or principal because of a deterioration in the financial position of the borrower. There are no investments in debt securities classified as "non-performing" in either 1978 or 1977.

	Loans Past Due Sixty Days Or More As To Principal Or Interest						Renegotiated Loans (2), (3), (4), (5)	
	Consumer		Real Estate(1)		All Other			
	1978	1977	1978	1977	1978	1977	1978	1977
	(Thousands of Dollars)							
Aggregate loan amounts	$649	$1,034	$1,055	$5,717	$1,972	$1,604	$729	$3,467
Interest income which would have been recorded if the loans had been current during the year	66	84	120	451	78	92	71	242
Interest actually recorded as interest income during the year	66	84	52	155	66	64	49	107

(1) Includes renegotiated loans with aggregate loan amounts of $546,000 and $3,291,000, respectively, which have become contractually past due sixty or more days as to principal or interest payments since the renegotiation.

(2) Excludes loans contractually past due sixty days or more as to interest or principal payments.

(3) Renegotiated loans are classified as such only until the terms are substantially equivalent to terms on which new loans with comparable risks are being made. For purpose of this summary, loans renewed on market terms existing at the date of renewal are not considered renegotiated loans.

(4) Renegotiated loans are composed entirely of real estate loans.

(5) There are no commitments to lend additional funds on any of the renegotiated loans.

OLD STONE CORPORATION

Non-Performing and Restructured Loans

The following table presents information concerning non-performing and restructured loans carried in the Consolidated Loan Portfolio of Old Stone Corporation at December 31, 1978 and 1977, respectively. Non-performing loans are loans which are contractually past due 60 days or more as to principal or interest. Restructured loans are loans, excluding non-performing loans, the terms of which have been renegotiated to provide a reduction or deferral of interest or principal because of a deterioration in the financial position of the borrower.

	Years Ended December 31	
	1978	1977
	(In thousands)	
Non-Performing Loans		
Commercial loans:		
Aggregate loan amount at year end	$1,546	3,467
Interest income which would have been recorded on such loans if the loans had been current throughout the year	209	448
Interest on such loans included in income during the year	94	58
Mortgage Loans:		
Aggregate loan amount at year end	8,172	8,542
Interest income which would have been recorded on such loans if the loans had been current throughout the year	784	697
Interest on such loans included in income for the year	687	94
Restructured Loans:		
Aggregate loan amount at year end	1,679	351
Interest income which would have been recorded on such loans if the loans had been current throughout the year	132	31
Interest on such loans included in income during the year	-0-	9

The Corporation and its subsidiaries are not committed to lend additional funds to any borrower whose loan has been categorized as a non-performing loan or whose loan has been restructured.

ATLANTIC BANCORPORATION

Non-Performing Assets

Non-performing loans (non-accruing and restructured loans) and other real estate at December 31, 1978 and 1977 are summarized as follows (in thousands):

	December 31,	
	1978	1977
Non-accruing loans	$10,266	$17,336
Restructured loans	3,172	5,942
Other real estate	5,628	7,728
	$19,066	$31,006

The other real estate balances are included in other assets in the accompanying Consolidated Balance Sheets.

At December 31, 1978, there were commitments to advance funds on the above restructured loans totaling $225,000.

The impact upon interest income of carrying these non-performing loans during the years ended December 31, 1978 and 1977 was as follows (in thousands):

	1978		1977	
	Non-Accruing Loans	Restructured Loans	Non-Accruing Loans	Restructured Loans
Interest income which would have been recorded under the original loan terms	$1,181	$361	$2,018	$599
Less interest income recorded	(110)	(217)	(262)	(340)
Lost interest income	$1,071	$144	$1,756	$259

Other asset categories

Other asset categories disclosed by the survey companies included:

Direct lease financing accounts
Bank premises and equipment and related depreciation
Other real estate and related allowance for losses
Accrued income receivable
Other assets (miscellaneous accounts)

The highlights of disclosure methods and trends are listed below with examples of direct lease financing and other real estate disclosures following the narrative and tables.

Direct lease financing

Approximately 58% of the survey companies (50% in 1977) included some form of direct lease financing disclosure. Table 24 reflects where the disclosure was made and the percentage of reports disclosing the method of accounting utilized. In both 1978 and 1977 all companies disclosing a method of accounting indicated that the financing method was used.

Table 24. Direct Lease Financing Disclosures

	Commercial Banks		Multi-bank Holding Companies		One-bank Holding Companies	
	78	77	78	77	78	77
Reports disclosing direct lease financing which made the disclosure in:						
Statement of condition only	10%		17%	11%	14%	7%
Statement of condition and notes to financial statements	28	18%	20	16	29	27
Statements of condition and income and notes to financial statements	45	64	53	51	50	54
Summary of accounting policies or notes to financial statements only	17	18	10	22	7	12
	100%	100%	100%	100%	100%	100%
Reports disclosing direct lease financing which:						
Disclosed method of accounting	76%	81%	76%	83%	71%	68%
Did not disclose method of accounting	24	19	24	17	29	32
	100%	100%	100%	100%	100%	100%
Number of reports disclosing direct lease financing	29	17	79	63	45	41
Report disclosing direct lease financing which made disclosure of:						
Components of net investment	24%	12%	32%	21%	43%	29%
Contingent rental features			3	2	5	2
Minimum maturities of lease receivable for 5 years	10		10	6	12	24
Amount of initial direct costs recognized in income			3	1		2
Leveraged leases	24	12	24	14	45	27
Reports disclosing lease financing income in the income statement as:						
Separate caption	28%	*	48%	*	54%	*
Not disclosed	19	*	15	*	19	*
	47		63		73	
No lease financing receivables	53	*	37	*	27	*
	100%		100%		100%	

*Information was not accumulated for 1977.

Leveraged leases

Thirty percent of the survey companies which made lessor disclosures disclosed leveraged lease financing in 1978 as compared to 14% in 1977. FASB Statement No. 13 requires disclosure of net investments in leveraged leases (when material) in the statement of condition. Disclosure of the components of the net investment should be made in the notes to financial statements when leveraged leasing in terms of revenue, net income or assets is a significant part of an entity's business activities. The income statement or related notes, should separately present:

Pretax income from leveraged leases
The tax effect of the pretax income from leveraged leases
The amount of investment tax credit recognized as income

Some bank lessors have followed the practice of reporting the amortization of investment tax credit on leveraged lease financing as operating income rather than as a component of the income tax provision because they view the investment tax credit amortization as an integral part of their rate of return on the lease financing. Other banks have followed the practice of reporting the amortization of such investment tax credits as a component of the income tax provision. The proposed AICPA Audit and Accounting Guide for Banks states that the investment tax credit for all leases should be presented as a component of the income tax provision in the income statement.

Bank premises and equipment

All surveyed reports disclosed the existence of premises and equipment in the financial statements, although some of the survey companies (1978-7%; 1977-8%) made no disclosure of the amounts of accumulated depreciation. The majority of survey companies disclosed premises and equipment in a single caption with details by class of property in the notes to financial statements. The table below shows where the disclosure of premises and equipment and the amount of depreciation was made and the percent of reports which disclosed accumulated depreciation and the method of depreciation.

Table 25. Bank Premises and Equipment and Related Depreciation

	Commercial Banks		Multi-bank Holding Companies		One-bank Holding Companies	
	78	77	78	77	78	77
Reports in which bank premises and equipment were disclosed in the statement of condition in:						
A single caption—no other description	31%	32%	13%	13%	16%	24%
A single caption—details of elements in notes to financial statements	69	68	85	85	82	71
A listing of components			2	2	2	5
	100%	100%	100%	100%	100%	100%
Reports in which accumulated depreciation was disclosed in:						
Notes to financial statements						
Single caption	75%	77%	76%	78%	67%	72%
Principal components shown	7	9	16	12	22	16
Statement of condition	6		3	3	5	7
	88	86	95	93	94	95
No disclosure made	12	14	5	7	6	5
	100%	100%	100%	100%	100%	100%

(continued)

Table 25. Bank Premises and Equipment and Related Depreciation (continued)

	Commercial Banks		Holding Companies	
	78	77	78	77
Reports in which the method of depreciation:				
Was disclosed	99%	95%	98%	98%
Was not disclosed	1	5	2	2
	100%	100%	100%	100%
Reports which disclosed the provision for depreciation in the:				
Notes to financial statements only	8%	30%	9%	14%
Funds statement only	47	28	47	43
Notes and the funds statement	40	32	40	38
Other	2	3	1	1
	97	93	97	96
No disclosure made	3	7	3	4
	100%	100%	100%	100%

Other real estate and related allowance for losses

Other real estate was disclosed by 54% of the commercial banks and 56% of the holding companies included in the survey. Tables 26 and 27 indicate the prevailing disclosure practices. Most companies making disclosure utilized the caption "other real estate" presented as a separate line in the statement of condition.

Table 26. Other Real Estate

	Commercial Banks		Multi-bank Holding Companies		One-bank Holding Companies	
	78	77	78	77	78	77
Reports which disclosed other real estate:						
In statement of condition caption	43%	46%	39%	59%	51%	60%
In footnote to financial statements	11	5	12	8	8	12
Other			2	2	5	1
	54	51	53	69	64	73
Not disclosed	46	49	47	31	36	27
	100%	100%	100%	100%	100%	100%

Table 27. Allowance for Losses on Other Real Estate

	Commercial Banks		Multi-bank Holding Companies		One-bank Holding Companies	
	78	77	78	77	78	77
Reports including other real estate with an allowance for losses on other real estate disclosed as:						
Valuation allowance with amount shown on balance sheet	6%	4%	5%	6%	13%	11%
Valuation allowance with amount disclosed in footnote	6		14	7	10	4
Allowance for loan losses allocated to other real estate with:						
Amount disclosed in footnote		3	1	7		9
Amount disclosed in statement of condition		3				
Amount not stated		17	3	12	3	13
	12	27	23	32	26	37
No disclosure made	88	73	77	68	74	63
	100%	100%	100%	100%	100%	100%
Number of reports including other real estate disclosures	36	29	65	83	40	54

Accrued income receivable

The practice of disclosing accrued income receivable was followed by 55% of the commercial banks and 48% of the holding companies included in the survey. Disclosure was made as a separate caption in the statement of condition by all but 6% of the companies disclosing the amount in 1978. The alternative was to present the amount in a separate note to the financial statements.

Other assets

The other assets section of the statement of condition of the surveyed reports generally consisted of a grouping of accounts that in themselves were usually too insignificant to warrant separate disclosure. The caption used most often was "Other Assets," although captions such as "Other," "Other Resources" and "Sundry" were used. Four percent of the holding companies disclosed other asset categories which had balances in excess of 30% of shareholders' equity. Such disclosure is now required by revised Article 9 of Regulation S-X.

Table 28 reflects the location of the categories of other assets when such disclosure was made in a surveyed company's annual report. Similar data is not available for 1977.

Table 28. Other Assets*

	Commercial Banks	Multi-bank Holding Companies	One-bank Holding Companies
Disclosure of detail categories of other assets was made:			
As separate caption(s) on the balance sheet	16%	20%	26%
In the notes to financial statements	4	5	16
	20	25	42
No disclosure made	80	75	58
	100%	100%	100%

*Information was not accumulated for 1977

EXAMPLES Direct lease financing—statement of condition

MARINE CORPORATION

	December 31 1978	 1977
	(Amounts in Thousands)	
Direct lease financing	18,211	15,313

WORCESTER BANCORP, INC.

	December 31 1978	 1977
Direct lease financing, net of reserve for possible losses	9,725,990	8,443,053

MELLON NATIONAL CORPORATION

	December 31 1978	 1977
Lease Finance Assets, Net of Reserve for Possible Credit Losses on Leases	120,930,000	104,889,000

MANUFACTURERS BANK

	December 31 1978	 1977
Direct Lease Financing, Net of Unearned Income of $618,032 and $834,029	2,864,319	2,838,338
Investment in Leveraged Leases	4,739,853	1,235,392

EXAMPLES Direct lease financing—excerpt from summary of accounting policies

MULTIBANK FINANCIAL CORPORATION

Direct Lease Financing
Leases are accounted for under the finance method of accounting whereby the aggregate rentals receivable net of unearned income are included in the consolidated balance sheet. Income is recorded by a method which recognizes income in direct proportion to the outstanding principal balance.

HARRIS BANKCORP.

Direct Lease Financing. For financial statement purposes, direct lease financing is reported on the finance method of accounting. The total amount due from lessees, including estimated residual value, less the related unearned income, is reflected as a receivable in the consolidated statements of condition. Unearned income is recognized as earned over the terms of the leases.

MARSHALL & ILSLEY CORPORATION

Accounting for direct finance leases--The direct financing method of accounting is followed for all lease contracts. Initial direct costs are charged against income as incurred, and a portion of the unearned income equal to the initial direct costs is recognized as income in the same period. The remaining unearned income is recognized over the lease term on a basis which results in an approximate level rate of return on the unrecovered lease investment.

FIRST SECURITY CORPORATION

Direct Lease Financing
The Corporation's subsidiaries lease various types of equipment to customers under both leveraged and non-leveraged arrangements. For leveraged leases, a significant part of the cost of the equipment is financed by other institutional lenders who depend on the related lease and equipment as collateral for their loans with no recourse to the subsidiaries.

The investment in direct lease financing consists of rentals receivable, estimated residual values, and investment tax credits receivable, less related unearned income. Unearned income is amortized into income so as to produce a constant periodic rate of return on the unrecovered investment.

NORTHWEST BANCORPORATION

Lease Financing. Certain subsidiaries of the Corporation are engaged in direct lease financing. These leases are reported for financial statement purposes by the financing method of accounting. Aggregate lease rentals are recorded as receivables, net of the related unearned income, which includes investment tax credits retained by the lessor. Unearned income is deferred and subsequently transferred to income by the sum-of-the-digits method for leases entered into prior to 1977. For leases entered into thereafter unearned income is amortized by the interest method in accordance with Statement No. 13 of the Financial Accounting Standards Board, "Accounting for Leases."

Certain subsidiaries are also engaged in leveraged lease financing. The investment in leveraged leases is presented net of nonrecourse debt, deferred investment tax credit and the related unearned income. Unearned income, including investment tax credits retained, is deferred and transferred to income by the sum-of-the-digits method for leases entered into prior to 1977 and by the interest method for leases entered into thereafter.

During 1978 the Corporation and its subsidiaries adopted the requirements of Statement No. 13 for leases entered into prior to 1977. The effect of the accounting change on consolidated net income in 1978 was not material. Financial statements for prior years have not been restated since the effect was not material.

EXAMPLES Direct lease financing—separate note to financial statements

INDUSTRIAL NATIONAL CORPORATION

Lease Financing: The Company's leases consist principally of full-payout, direct financing leases and leveraged leases. Leveraged leases generally finance large-dollar equipment; the Company provides an equity investment of 20-40% of equipment cost and the remaining cost is financed by non-recourse, long-term debt that is secured by a first lien on the property. For Federal income tax purposes, the Company receives investment tax credits, where applicable, and has the tax benefit of depreciation on the entire leased unit and interest on the long-term debt. The Company's leveraged leases are primarily in the energy and transportation industries.

The components of Banking subsidiary and Other subsidiaries' leases are as follows:

	December 31 (000 omitted)					
	1978			1977		
	Leveraged	Direct	Total	Leveraged	Direct	Total
Banking subsidiary:						
Gross lease receivables	$87,140	-	$ 87,140	$78,238	-	$ 78,238
Less:						
Non-recourse debt	43,715	-	43,715	36,780	-	36,780
Interest on non-recourse debt	35,897	-	35,897	34,862	-	34,862
Unearned income	1,573	-	1,573	1,842	-	1,842
Net leasing receivables	5,955	-	5,955	4,754	-	4,754
Residual value	8,914	-	8,914	7,418	-	7,418
Lease financing	$14,869	-	$ 14,869	$12,172	-	$ 12,172
Other subsidiaries:						
Gross lease receivables	$70,345	$50,134	$120,479	$86,801	$45,232	$132,033
Less:						
Non-recourse debt	37,323	-	37,323	45,965	-	45,965
Interest on non-recourse debt	30,107	-	30,107	35,933	-	35,933
Unearned income	1,545	9,524	11,069	1,735	7,834	9,569
Reserve for losses	-	788	788	-	539	539
Net leasing receivables	1,370	39,822	41,192	3,168	36,859	40,027
Residual value	8,823	2,966	11,789	10,685	3,141	13,826
Lease financing	$10,193	$42,788	$ 52,981	$13,853	$40,000	$ 53,853

Unearned income of $549,000 in 1978 and $356,000 in 1977 was recorded immediately to offset initial direct costs which were charged against income during the respective periods. Deferred taxes arising from leveraged leases totaled $25,982,000 in 1978 and $21,878,000 in 1977.

WELLS FARGO & COMPANY

Company's activity as a lessor: The net investment in direct financing leases consisted of the following:

	December 31			
	1978		1977	
	Finance Subsidiaries (In thousands)	Consolidated	Finance Subsidiaries	Consolidated
Total minimum lease payments to be received	$229,904	$352,449	$190,854	$266,463
Allowance for losses	(4,520)	(4,520)	(3,824)	(3,824)
Unguaranteed residual value	23,012	155,306	19,997	110,485
Unearned income	(57,644)	(98,745)	(46,377)	(70,391)
Net investment in direct financing leases	$190,752	$404,490	$160,650	$302,733

The net investment in leveraged leases was not significant.

Unearned lease income recognized as income to offset initial direct costs of acquiring leases was as follows:

	Years ended December 31	
	1978 (In thousands)	1977
Finance Subsidiaries	$1,429	$1,283

The Bank does not recognize unearned income to offset initial direct costs of acquiring leases.

At December 31, 1978, direct lease receivables were due in installments to 1998. Installments mature as follows:

	Finance Subsidiaries (In thousands)	Consolidated
Year ended December 31,		
1979	$ 50,983	$133,795
1980	41,286	72,884
1981	35,122	41,069
1982	27,842	29,638
1983	20,187	20,382
Thereafter	54,484	54,681
	$229,904	$352,449

SEAFIRST CORPORATION

Lease Financing

The Corporation engages in "direct financing" leases of both automobiles and equipment and "leveraged" leases. In a direct financing lease the Corporation provides all of the financing, while in a leveraged lease a substantial portion of the financing is provided by third parties without recourse to the Corporation.

The following table shows the composition of the lease financing balances at December 31, 1978 (in thousands):

	Auto Leases	Equipment Leases	Leveraged Leases	Total
Lease receivables	$185,655	$177,711	$27,909	$391,275
Less: Unearned income	(29,842)	(45,253)	(4,641)	(79,736)
Receivables before reserve possible lease losses	$155,813	$132,458	$23,268	311,539
Less: Reserve for possible lease losses				(2,247)
Lease financing, net				$309,292
Lease reserve as a percent of lease receivable less unearned income				.72%

FIRST CHICAGO CORPORATION

Lease Financing

The Corporation engages in both direct financing and leveraged leases. In a direct financing lease the Corporation provides all of the financing, while in a leveraged lease a substantial portion of the financing is provided by third parties without recourse to the Corporation.

The following table shows the composition of lease financing balances at December 31, 1978 and 1977 (in thousands):

	1978		1977	
	Consolidated	Nonbank Subsidiaries	Consolidated	Nonbank Subsidiaries
Lease receivables	$570,891	$519,431	$556,200	$464,311
Unearned income	(165,708)	(160,112)	(158,211)	(144,842)
Net	$405,183	$359,319	$397,989	$319,469
Progress payments and other lease related assets	296	296	497	-0-
Allowance for losses	(6,355)	(5,490)	(5,608)	(4,322)
Lease financing, net	$399,124	$354,125	$392,878	$315,147

Net lease receivables include leveraged lease receivables of $169,342,000 and $125,991,000 at December 31, 1978 and 1977, respectively.

Unearned income is amortized to lease financing income by a method which produces an approximately level rate of return on the net investment in the lease.

Lease receivables at December 31, 1978 include scheduled payments for each of the next five years and beyond as follows (in thousands):

	Consolidated	Nonbank Subsidiaries
Due in 1979	$ 57,475	$ 43,255
1980	53,563	38,862
1981	44,377	36,931
1982	39,795	32,499
1983	38,441	31,033
Beyond 1983	337,240	336,851
Total	$570,891	$519,431

MELLON NATIONAL CORPORATION

Lease Finance Assets

The composition of Lease Finance Assets is as follows:

	December 31	
	1978	1977
	(in thousands)	
Direct Lease Receivables Due in Installments	$146,081	$125,211
Less: Unearned Income	48,994	41,148
Receivables, Net of Unearned Income	97,087	84,063
Estimated Residual Value of Property at End of Lease Term	14,434	11,365
Net Investment in Direct Lease Finance Assets	111,521	95,428
Assets on Interim Rent and Other Lease Assets	11,890	11,792
Subtotal	123,411	107,220
Less: Reserve for Possible Credit Losses on Leases	2,481	2,331
Total Lease Finance Assets, Net of Reserve	$120,930	$104,889

EXAMPLES Investment tax credit included in lease financing income

CHASE MANHATTAN CORPORATION
(Excerpt of accounting policy note)

Investment tax credits on lease financing equipment are deferred and amortized to Income on Lease Financings. Other investment tax credits are deferred and amortized to income as reductions of tax expense.

FIFTH THIRD BANCORP
(Excerpt of lease financing footnote)

Lease financing income includes the amortization of investment tax credits of $620,000 and $437,000 for 1978 and 1977, respectively.

EXAMPLE Investment tax credit included as a component of the income tax provision

MANUFACTURERS BANK
(Separate note to financial statements)

Lease Financing Income

Income from leasing activities is reflected in the Consolidated Statements of Income as follows:

	Year Ended December 31,	
	1978	1977
Included in Lease Financing Income:		
Income from direct leases	$241,014	$294,890
Pretax loss from leveraged leases	(281,826)	(46,216)
Total pretax income (loss) from leases	(40,812)	248,674
Included in Applicable Income Taxes:		
Tax benefit (expense) on pretax amount	24,150	(137,709)
Investment tax credits recognized	411,673	138,731
Income from leasing activities	$395,011	$249,696

EXAMPLES Other real estate classified in loans (statement of condition)

UNITED JERSEY BANKS

Loans and loan-related assets:		
Loans	1,494,864,000	1,329,754,000
Loan-related assets	13,818,000	17,847,000
Total Loans And Loan-Related Assets	1,508,682,000	1,347,601,000
Less: Unearned discount	32,935,000	28,037,000
Reserve for loan losses	12,184,000	10,381,000
Net loans and loan-related assets	1,463,563,000	1,309,183,000

NATIONAL BANK OF NORTH AMERICA

Loans	2,545,688	2,147,209
Foreclosed Real Estate	19,488	35,267
	2,565,176	2,182,476
Less--Unearned income	33,374	28,360
Reserve for losses	22,830	21,387
	2,508,972	2,132,729

EXAMPLES Other real estate classified in other assets and disclosed parenthetically (statement of condition)

PAN AMERICAN BANCSHARES, INC.

Other (including other real estate of $7,829,000 and $11,083,000 in 1978 and 1977)	19,557,000	22,921,000

FIRST NATIONAL BOSTON CORPORATION

Other assets (including other real estate owned of $12,933,000 in 1978 and $22,825,000 in 1977)	150,149	128,022

EXAMPLES Other real estate classified in a separate caption (statement of condition)

ZIONS UTAH BANCORPORATION

Property, equipment, and leasehold improvements, at cost, less accumulated depreciation of $5,636,000 and $4,543,000	16,010,000	14,423,000
Other real estate owned, at lower of cost or market	2,943,000	2,959,000
Other assets	3,632,000	2,165,000

NEW JERSEY NATIONAL CORPORATION

Premises and equipment, net	15,540,479	14,985,564
Due from customers on acceptances	20,561	65,367
Accrued interest receivable	11,388,853	10,705,056
Other real estate at estimated realizable value	8,629,407	8,083,613
Other assets	4,983,477	4,965,211

FIRST CAPITAL CORPORATION

Other real estate	594,050	442,824
Customers' acceptances outstanding	6,674,749	4,555,982
Accrued interest receivable	12,371,268	9,491,270
Other assets	1,232,417	2,354,088

SOUTH CAROLINA NATIONAL CORPORATION

Premises and equipment	37,346	36,454
Customers' acceptance liability	73	200
Property acquired through foreclosure	1,921	3,194
Interest receivable and other assets	12,427	11,782

EXAMPLES Other real estate with separate allowance for losses

BANK OF THE COMMONWEALTH
(Statement of condition)

Other real estate	13,922,393	15,589,716
Allowance for possible losses	(880,000)	(3,668,000)
Net other real estate	13,042,393	11,921,716

FIDELCOR, INC.
(Statement of condition)

Foreclosed real estate, net of allowance for losses in 1978 of $6,375,000	19,436,000	20,136,000

UNION COMMERCE CORPORATION
(Separate note to financial statements)

Reserve for Possible Losses on Other Real Estate

Transactions in the reserve for possible losses on other real estate for the years ended December 31, 1978 and 1977 were as follows:

	1978	1977
	(Thousands of Dollars)	
Balance, beginning of year	$ 502	$1,702
Add:		
Provision charged against other operating expenses	583	1,388
Recoveries	29	-
	1,114	3,090
Deduct:		
Charge-offs	1,114	2,588
Balance, end of year	$ -	$ 502

In 1978, gains on sales of properties totaled $1,068,000, as compared with $176,000 in 1977; and direct net operating income amounted to $100,000 in 1978, as compared to the net operating expense incurred in 1977 of $61,000.

EXAMPLES Other real estate (summary of accounting policies)

BANCAL TRI-STATE CORPORATION

Other Real Estate Owned

Real estate acquired in settlement of loans is carried at the lower of cost or fair market value, which is based on independent appraisals and other relevant factors. At the time of acquisition any excess of cost over fair market value is charged to the loan loss reserve. Writedowns subsequent to acquisition and gains and losses realized on sale are included in revenue from other real estate owned-net.

FIRST CHICAGO CORPORATION

Real Estate Assets Acquired in Satisfaction of Debt

The Corporation has acquired real estate assets through foreclosures and exchanges of assets with debtors in satisfaction of certain real estate related and other loans. These assets include properties and stock in real estate companies. Such assets acquired in 1978 have been recorded at their fair value at the date of acquisition. Real estate properties acquired through foreclosure prior to 1978 were recorded at their estimated net realizable value at the date of acquisition.

Any losses incurred at the date of acquisition are charged to the allowance for possible loan losses. Subsequent to acquisition, other real estate is carried at its estimated net realizable value based upon periodic revaluations which consider changes in market conditions, development and disposition costs and estimated holding periods.

LINCOLN FIRST BANKS, INC.

Other Real Estate Owned. Financial Accounting Standards Board Statement No. 15 entitled "Accounting by Debtors and Creditors for Troubled Debt Restructurings" is effective for other real estate acquired subsequent to December 31, 1977. Properties acquired after December 31, 1977 are carried at the lower of cost or estimated fair market value in accordance with Statement No. 15. The only adjustments to cost after acquisition are capital expenditures.

Properties acquired prior to December 31, 1977 are carried at the lower of cost or estimated net realizable value as of the date of acquisition. Cost includes loan principal, accrued interest, foreclosure expense and operating expenditures. Estimated net realizable value is the anticipated sales price of the property, adjusted to reflect estimated positive or negative cash flow (excluding imputed interest) during the anticipated holding period, reduced by estimated selling expense.

For all other real estate acquired, the excess of cost over estimated net realizable value or fair market value at the time of acquisition is charged to the reserve for possible loan losses. Estimated net realizable values and fair market values are periodically reviewed. Estimated additional losses identified by such periodic reviews are considered in determining the adequacy of the reserve for possible other real estate losses. This reserve has been established by charges to operations and is available to absorb any loss that may occur at the time of disposition of the properties. Holding periods may vary for each property, but are generally subject to a maximum of five years. Expenses incurred in holding and operating these properties, gains or losses on sales, as well as the provision for possible other real estate losses are included in other operating expenses in the Consolidated Statement of Income.

NCNB CORPORATION

Non-Performing Assets--Non-performing assets include real estate acquired through foreclosure, repossessed personal property, loans and leases accounted for on a cash basis, and loans and leases on which interest rates or repayment terms have been revised for credit reasons.

Real estate acquired through foreclosure is carried at the lower of (1) the recorded amount of the loan or lease for which the foreclosed property previously served as collateral or (2) the appraisal value of the property. Before foreclosure, the recorded amount of the loan or lease is written down to the appraised value of the real estate to be acquired through foreclosure, if necessary, by charging the allowance for loan and lease losses. (Before 1978, the mortgage subsidiaries transferred a portion of their allowance for loan losses to their allowance for losses on real estate acquired through foreclosure rather than writing down the recorded amount of the loan.)

Subsequent to foreclosure, gains or losses on the sale of and losses on the periodic revaluation of real estate acquired through foreclosure are credited or charged to foreclosed properties expense in the consolidated statement of income and to other operating expenses in the bank statement of income. (Before December 31, 1978 the non-bank subsidiaries maintained allowances for losses on real estate acquired through foreclosure against which these gains or losses were applied.) Costs of maintaining and operating foreclosed properties are expensed as incurred. Expenditures to complete or improve foreclosed properties are capitalized only if expected to be recovered. Otherwise, they are expensed.

BARNETT BANKS OF FLORIDA, INC.

Non-performing Assets. Non-performing assets include real estate acquired by foreclosure and through restructured debt transactions, loans on a non-accrual status, and loans on which interest rates or repayment terms have been revised for credit reasons.

Other real estate held for sale is stated at the lower of cost or fair value. Estimated costs to complete, hold and sell the real estate are taken into consideration in determining estimated fair value. Gains or losses upon disposition are reflected in current operations. Proceeds from the partial sale of a project are credited to the carrying value of the project.

Management reviews each property periodically to ensure that the recorded amount is supported by the estimated current fair value of the property. Any excess carrying amount over the current estimated fair value is charged as an expense under the "other expense" category in the consolidated statements of income.

EXAMPLES Other real estate (separate note to financial statements)

BANK OF THE COMMONWEALTH

Other Real Estate

Other real estate is comprised of the following:

	1978	1977
Loans in process of foreclosure	$ 2,910	$ 7,070
Real estate acquired in settlement of loans	9,433	7,345
Real estate previously acquired--sold on land contract	1,020	963
Property related to closed branches	559	212
Balances, December 31	$13,922	$15,590

An analysis of activity in other real estate is as follows:

	1978	1977
Balances, January 1	$15,590	$10,886
Transferred from loans	9,401	11,514
Collected	(6,027)	(4,588)
Bank's share of loss in Cadillac Hotel	(929)	-
Transferred to loans	-	(1,000)
Charged-off	(4,113)	(1,222)
Balances, December 31	$13,922	$15,590

A subsidiary of the Bank is the sole general partner in Cadillac Associates, a limited partnership which acquired the Cadillac Hotel, located in downtown Detroit, Michigan, from the Bank in March, 1978. The Bank had previously acquired the property by foreclosure in 1976.

The Bank's equity in net assets at December 31, 1978 and its share of loss for the year then ended is as follows:

Current assets	$ 563
Premises and equipment, net of depreciation	11,130
Limited partner's subscriptions receivable	1,400
Liabilities to creditors other than Bank of the Commonwealth	(7,938)
Net assets	5,155
Limited partners' interest therein	(908)
Bank's equity in net assets (Included in Other Real Estate)	$ 4,247
Revenues	$ 3,071
Costs and expenses, including depreciation of $438,000 and interest of $293,000	4,929
Loss	$ 1,858
Bank's share of loss (Charged to Other Real Estate Expense)	$ 929

One-half of future losses will be absorbed by the limited partners until their capital accounts are exhausted, after which time all losses will be chargeable to the Bank's operations.

FIDELCOR, INC.

Foreclosed Real Estate

Property with an estimated value of $19,035,000 was acquired in 1978 ($9,276,000 in 1977). Such acquisitions arise from lending situations and acquired property is recorded at the lower of the principal balance of the loan or the estimated fair value of the property. Losses of $5,484,000 in 1978 ($1,879,000 in 1977) arising from such acquisitions were charged to the reserve for loan losses. The estimate of the fair value of such acquired property included an estimate of the amount of interest expense which the Corporation expects to incur while holding the property. In addition, during 1978 the Corporation established an allowance for losses on foreclosed real estate based on the estimated net realizable value of such assets. The allowance reflects the 1978 decision of the Corporation to promptly divest itself of the related property. Costs associated with holding other real estate, excluding the effect of credit losses upon acquisition, were as follows:

	1978	1977
Provision for losses	$7,128,000	$ -
Taxes, insurance and other property management expenses, net of rental income	807,000	397,000
Total	$7,935,000	$397,000

Following is a summary of the transactions in the allowance for losses on foreclosed real estate established in 1978:

	The Fidelity Bank (and Subsidiaries)	Non-Banking Subsidiaries	Total
Provision	$3,700,000	$3,428,000	$7,128,000
Recoveries	-	71,000	71,000
	3,700,000	3,499,000	7,199,000
Deduct:			
Charge-offs	472,000	352,000	824,000
Balance, December 31, 1978	$3,228,000	$3,147,000	$6,375,000

EXAMPLES Combined allowance for losses on loans and other real estate (separate note to financial statements)

UNION PLANTERS CORPORATION

Allowances for Losses on Loans and Foreclosed Properties

The following schedule summarizes the changes in the allowances for losses on loans and foreclosed properties for the years ended December 31, 1977 and 1978:

	Allowances for losses on		
	Loans	Foreclosed Properties	Total
Balance, January 1, 1977	$ 7,425,726	2,711,915	10,137,641
Provision charged to operating expenses	4,115,000	-	4,115,000
Transfers between allowances	(3,347,500)	3,347,500	-
Recoveries	2,193,457	-	2,193,457
Amounts charged off	(4,181,420)	(3,748,023)	(7,929,443)
Balance, December 31, 1977	6,205,263	2,311,392	8,516,655
Provision charged to operating expenses	5,701,227	-	5,701,227
Transfers between allowances	(1,082,948)	1,082,948	-
Recoveries	3,166,363	-	3,166,363
Amounts charged off	(4,733,022)	(1,867,683)	(6,600,705)
Balance, December 31, 1978	$ 9,256,883	1,526,657	10,783,540

In management's opinion, the allowances are adequate to absorb losses which may result from the loan portfolio and foreclosed properties at December 31, 1978.

HARTFORD NATIONAL CORPORATION

Reserves for Possible Losses

The reserves of the consolidated group are comprised of the separate reserves of the Bank and Realty. The Bank has separate reserves for loans and foreclosed properties. Realty's reserve is allocated to both loans and foreclosed properties. Transactions in the reserves of the Bank and Realty for 1978 and 1977 are as follows:

	Bank		Realty		Total
	Loans (000's omitted)	Foreclosed Properties	Loans	Foreclosed Properties	
Balance January 1, 1977	$10,700	$ -	$ 6,290	$5,491	$22,481
Provision charged to income	9,237	263	-	-	9,500
Charge-offs	(10,654)	-	(2,187)	(244)	(13,085)
Recoveries	1,917	-	-	-	1,917
Transfers to foreclosed properties	-	-	(425)	425	-
Balance December 31, 1977	11,200	263	3,678	5,672	20,813
Provision charged to income	9,014	735	-	-	9,749
Charge-offs	(10,326)	(986)	(2,378)	(5,263)	(18,953)
Recoveries	3,376	-	7	288	3,671
Transfers to foreclosed properties	-	-	(745)	745	-
Balance December 31, 1978	$13,264	$ 12	$ 562	$1,442	$15,280

The reserves for losses at December 31, 1978 and 1977 are as follows:

	1978		1977	
	Loans (000's omitted)	Foreclosed Properties	Loans	Foreclosed Properties
Bank	$13,264	$ 12	$11,200	$ 263
Realty	562	1,442	3,678	5,672
	$13,826	$1,454	$14,878	$5,935

EXAMPLES Other assets—components disclosed in notes to financial statements

SHAWMUT CORPORATION

An analysis of other assets at December 31, 1978 and 1977 is as follows:

	1978 (in thousands)	1977
Income earned or accrued not collected	$31,710	$25,516
Securities borrowed	-	8,000
Prepaid expenses	2,171	2,006
Goodwill	1,480	1,480
Other	8,016	4,110
	$43,377	$41,112

FIRST UNION CORPORATION

Other Assets

	1978 (In thousands)	1977
Accrued interest receivable	$23,668	17,485
Foreclosed properties, net	10,990	15,399
Real estate investments, net, less accumulated depreciation of $207 in 1978; $163 in 1977	5,897	5,561
Business acquisitions, cost in excess of net tangible assets	4,729	4,729
Capitalized lease, less accumulated amortization of $1,191 in 1978; $956 in 1977	4,665	4,900
Investments in joint ventures	1,787	1,239
Sundry	14,616	10,027
Total	$66,352	59,340

The allowance for losses on foreclosed properties and real estate investments has been increased by provisions charged to other operating expense of $162,000 in 1978 and $3,176,000 in 1977 and reduced by realized losses of $12,000 in 1978 and $5,479,000 in 1977. At December 31, 1978 and 1977 the allowance for losses was $2,203,000 and $2,053,000, respectively.

Depreciation on real estate investments and amortization on the capitalized lease charged to other operating expense were $41,000 and $235,000 for 1978 and $820,000 and $234,000 for 1977, respectively.

Real estate investments with an aggregate depreciated cost of $2,225,000 at December 31, 1978 are pledged as security for mortgage notes.

Deposits

Most banks segregated deposits into three or four captions. When three captions were used, they were usually demand, savings and time deposits; when four were used, the captions were, in most instances, demand, savings, time and foreign deposits. A separate sub-total for deposits was usually shown, often with the designation "total deposits."

Regulatory authorities specify deposit classifications to be utilized in all reports filed with their agencies. In total, 4% (6% in 1977) of the survey companies included the regulatory classifications in their annual report. Of these companies, 18% (53% in 1977) presented the information in the text portion of the annual report, and 82% (47% in 1977) presented the information in the financial statements.

Disclosure of the amount of time deposits in excess of $100,000 increased substantially as indicated in Table 29.

Table 29. Deposits

	Commercial Banks		Multi-bank Holding Companies		One-bank Holding Companies	
	78	77	78	77	78	77
Reports in which the number of captions used in describing deposits was:						
One	1%		1%		1%	1%
Two	8	11%	3	15%	8	20
Three	49	58	49	50	29	34
Four	31	26	34	24	40	30
Five	8	2	8	8	16	10
Six or more	3	3	5	3	6	5
	100%	100%	100%	100%	100%	100%
Percent of reports which included:						
Savings deposits separate from other time deposits	84	68	83	53	79	60
Foreign deposits separate from other deposits	33	28	35	33	57	43

Table 30. Time Deposits in Excess of $100,000

	Commercial Banks		Holding Companies	
	78	77	78	77
Reports disclosing time deposits in excess of $100,000:				
In statement of condition	26%	10%	27%	11%
In notes to financial statements	37	9	45	6
	63	19	72	17
Not disclosed	37	81	28	83
	100%	100%	100%	100%

Short-term borrowings

In 1978, short-term borrowings were found in virtually all commercial bank and holding company reports surveyed. The revised Article 9 of Regulation S-X has resulted in generally increased disclosures of borrowed funds. Since the revised Article 9 did not affect 1977 reporting disclosures, only data for 1978 is presented below.

In July 1978, Congress enacted legislation which authorized the Secretary of the Treasury to invest operating cash in obligations of depositories maintaining Treasury tax and loan accounts. The purpose of this investment program was to allow the Treasury to earn interest on its funds in commercial banks. In order to facilitate participation by its member banks, the Board of Governors of the Federal Reserve System amended its regulations so that the "demand notes" issued to evidence the Treasury deposits could bear interest. The regulations were further amended so that the notes would not be regarded as deposits for purposes of the reserve requirements.

Table 33 indicates the location of disclosure made concerning the interest bearing portion of the Treasury tax and loan account.

Table 31. Short-Term Borrowings Captions

	Commercial Banks	Multi-bank Holding Companies	One-bank Holding Companies
Reports in which the number of captions used in describing short-term borrowings was:			
One	33%	18%	18%
Two	42	28	18
Three	13	23	33
Four	9	20	16
Five		7	14
Six or more	3	4	1
	100%	100%	100%
Percent of reports in which the following short-term borrowing captions were used:			
Borrowed funds	16%	10%	10%
Short-term borrowings	10	30	38
Federal funds purchased	24	30	38
Securities sold under agreements to repurchase	24	17	27
Federal Funds purchased and securities sold under agreements to repurchase	63	70	52
Commercial paper	15	47	56
Other liabilities for borrowed money	15	14	13
U.S. demand notes	37	30	27
Reports using more than one short-term borrowing caption disclosed them in:			
Statement of condition	40	28%	38
Notes to financial statements	21	29	24
Both	13	25	25
	74	82	87
Not presented	26	18	13
	100%	100%	100%

Table 32. Short-Term Borrowing Footnote Disclosures

	Commercial Banks		Holding Companies	
	78	77	78	77
Percent of reports with a short-term borrowing footnote that disclosed the following:				
Compensating balance arrangements	35%	2	36%	18%
Average interest rate in effect during period	73	*	87	*
Average interest rate in effect at year-end	62	19	27	70
Average debt outstanding during period	73	*	88	*
Maximum debt outstanding during period	65	*	86	*
Lines of credit supporting short-term borrowings	65	*	59	*
Number of reports included in this table	26	*	141	*

*Information was not accumulated for 1977

Table 33. Interest Bearing Treasury Tax and Loan Accounts*

	Commercial Banks	Multi-bank Holding Companies	One-bank Holding Companies
Reports disclosing demand notes in:			
Statement of condition	19%	28%	16%
Footnote	16	6	10
Both	3		
	38	34	26
No disclosure	62	66	74
	100%	100%	100%

*Information was not accumulated for 1977

Long-term debt

Approximately 91% of the survey companies included long-term debt. The components of long-term debt were disclosed in the notes to financial statements by 64% of the survey companies while 27% made this disclosure in the statement of condition. Table 34 presents the predominant captions used to describe long-term debt and/or its components.

Table 35 indicates that in accordance with Article 9 most holding companies and an increasing percentage of commercial banks included subordinated or capital notes and debentures in the liability section of the balance sheet.

Table 34. Long-Term Debt Captions

	Commercial Banks	Multi-bank Holding Companies	One-bank Holding Companies
Percent of reports in which the following long-term debt captions were used in either the statement of condition or footnotes:			
Subordinated or capital notes and debentures	82%	73%	80%
Long-term debt	4	14	9
Mortgages payable	30	51	31
Capital lease obligations	24	28	25
Notes payable	24	52	51
Other	19	41	34

Table 35. Subordinated or Capital Notes and Debentures

	Commercial Banks		Holding Companies	
	78	77	78	77
Reports with subordinated or capital notes and debentures which disclosed them in the:				
Liability section	72%	52%	93%	93%
Between liability and capital section	28	48	7	7
	100%	100%	100%	100%
Number of reports disclosing subordinated or capital notes and debentures	50	49	147	147

Other liabilities

Other liabilities are those accounts which do not conform to other captions in the liabilities section. Approximately 36% of the survey companies disclosed titles of the components of other liabilities in the statement of condition, while 3% disclosed this detail in the notes to financial statements. The remaining 61% made no disclosure of the components of other liabilities.

Approximately 8% of the survey companies disclosed selected components of other liabilities which had balances which exceeded 30% of shareholders' equity. These disclosures were equally distributed between the statement of condition and the notes to financial statements.

Table 36. Other Liabilities Captions*

	Commercial Banks	Multi-bank Holding Companies	One-bank Holding Companies
Percent of reports using the following captions:			
Other liabilities	81%	56%	75%
Accrued expenses and taxes	37	33	41
Accounts payable and accrued liabilities	6	19	18
Accrued interest payable	9	11	13
Dividends payable	12	7	11

*Information was not accumulated for 1977

EXAMPLES Disclosure of regulatory deposit classifications

LANDMARK BANKING CORPORATION OF FLORIDA
(Separate note to financial statements)

DEPOSITS
The detail of deposits as of December 31, 1978 and 1977, is as follows:

	1978			
	Demand	Savings	Time	Total
	(in thousands)			
Deposits of individuals, partnerships, corporations				
Individuals and nonprofit organizations	$154,171	$270,973	$132,993	$558,137
Corporations and other profit organizations	191,067	17,300	4,456	212,823
Total	345,238	288,273	137,449	770,960
Deposits of				
U.S. Government	1,935	-	-	1,935
States and political subdivisions	26,740	2,493	104,124	133,357
Commercial banks in the United States	11,655	-	-	11,655
Banks in foreign countries, including balances of foreign branches of other American banks	89	-	-	89
Official checks	17,628	-	-	17,628
Total Deposits	$403,285	$290,766	$241,573	$935,624

	1977			
	Demand	Savings	Time	Total
	(in thousands)			
Deposits of individuals, partnerships, corporations				
Individuals and nonprofit organizations	$125,627	$276,129	$119,432	$521,188
Corporations and other profit organizations	172,968	16,835	13,536	203,339
Total	298,595	292,964	132,968	724,527
Deposits of				
U.S. Government	7,071	-	-	7,071
State and political subdivisions	23,211	5,919	136,620	165,750
Commercial banks in the United States	10,225	-	-	10,225
Banks in foreign countries, including balances of foreign branches of other American banks	135	-	-	135
Official checks	20,599	-	-	20,599
Total Deposits	$359,836	$298,883	$269,588	$928,307

Time deposits include $128 million and $148 million of certificates of deposit of $100,000 or more at December 31, 1978 and 1977, respectively.

BANCOKLAHOMA CORP.
(Statement of condition)

Demand Deposits		
Individuals, Partnerships and Corporations	$347,667,000	303,696,000
Public Funds	8,140,000	21,463,000
Other	5,196,000	8,388,000
Total Demand Deposits	361,003,000	333,547,000
Time Deposits		
Savings	56,669,000	57,969,000
Certificates of Deposit	333,255,000	304,029,000
Other	29,948,000	18,368,000
Total Time Deposits	419,872,000	380,366,000
Total Deposits	780,875,000	713,913,000

EXAMPLES Deposit captions in statement of condition

MICHIGAN NATIONAL CORPORATION

	December 31	
	1978	1977
Deposits:		
Demand deposits	$1,272,534,000	$1,143,043,000
Savings deposits	1,426,859,000	1,488,216,000
Time deposits	1,676,998,000	1,219,969,000
Total Deposits	4,376,391,000	3,851,228,000

MARINE CORPORATION

Demand deposits	$ 415,682	$ 433,295
Savings deposits	340,993	360,243
Time deposits	517,423	411,194
Foreign deposits	6,800	-
Total Deposits	1,280,898	1,204,732

NEW ENGLAND MERCHANTS COMPANY, INC.

Deposits:		
In domestic offices:		
Demand	$ 653,497	$ 661,109
Savings	224,258	256,444
Time	486,371	310,966
In foreign branch	216,906	94,137
Total deposits	1,581,032	1,322,656

EXAMPLE Foreign deposit captions in excerpts from footnotes

CHEMICAL NEW YORK CORPORATION

Deposits in foreign branches were as follows:

	December 31	
	1978	1977
	(In thousands)	
Banks in foreign countries	$5,834,236	$ 5,848,929
Foreign governments and official institutions	1,353,147	1,807,852
Other foreign demand deposits	120,169	113,260
Other foreign time and savings deposits	2,650,098	2,394,971
	$9,957,650	$10,165,012

EXAMPLES Disclosure of certificates of deposit in excess of $100,000 in statement of condition

LITCO CORPORATION OF NEW YORK

Demand Deposits	$318,831	$302,736
Savings Deposits	163,570	171,304
Other Time Deposits	151,879	139,248
Time Certificates Issued in Excess of $100,000	171,483	141,252
Total Deposits	805,763	754,540

COMMONWEALTH NATIONAL BANK

Deposits:		
Demand	$276,259,443	$239,503,433
Savings and time	435,256,938	408,055,754
Certificates of deposit of $100,000 or more	68,779,579	56,533,977
Total deposits	780,295,960	704,093,164

FIRST TULSA BANCORPORATION, INC.

Deposits:		
Demand	$387,630	$439,337
Savings	64,483	80,912
Time--$100,000 or more	253,168	209,892
Other time	65,823	57,680
Total	771,104	787,821

EXAMPLES Disclosure of certificates of deposit in excess of $100,000 in separate note to financial statements

VALLEY BANK OF NEVADA, INC.

DEPOSITS:

Included in savings and time deposits at December 31, 1978 are time certificates of deposit over $100,000 maturing as follows:

3 months or less	$115,601,866
3 to 6 months	30,360,506
6 to 12 months	12,730,200
Over 12 months	6,200,000
	$164,892,572

Interest expense of $10,807,846 was charged to operating expenses for time certificates of deposit over $100,000 in 1978.

AUSTIN BANCSHARES CORPORATION

TIME DEPOSITS

Time deposits of $100,000 or more were approximately $182,558,000 and $139,431,000 at December 31, 1978 and December 31, 1977, respectively. Interest on time deposits of $100,000 or more was approximately $14,182,000 for 1978 and $7,948,000 for 1977.

HARRIS BANKCORP, INC.

Deposits. Included in other time deposits at December 31, 1978 and 1977 are $1,003,945,000 and $920,420,000, respectively, of certificates of deposit in denominations larger than $100,000. Included in deposits in foreign offices at December 31, 1978 and 1977 are $652,391,800 and $556,589,500, respectively, of certificates of deposit in denominations larger than $100,000. Interest expense by deposit category for the years 1978 and 1977 is as follows (in thousands):

	1978	1977
Domestic Savings Deposits	$ 51,558	$ 48,803
Domestic Time Deposits under $100,000	123	126
Domestic Time Deposits over $100,000	70,511	48,136
Deposits in Foreign Offices under $100,000	-	-
Deposits in Foreign Offices over $100,000	52,590	32,542
Total Interest On Deposits	$174,782	$129,607

EXAMPLES Disclosure of interest bearing portion of treasury, tax and loan accounts in statement of condition

SECURITY NEW YORK STATE CORPORATION

Liabilities for other borrowed funds:		
Federal funds purchased and securities sold under agreements to repurchase	74,258	24,955
U.S. Treasury demand notes	20,666	-
Commercial paper	9,119	4,955
Notes payable of bank related subsidiaries	6,650	13,189
Total liabilities for other borrowed funds	110,693	43,099

CONNECTICUT NATIONAL BANK

Federal funds purchased and securities sold under agreements to repurchase	47,017,310	36,468,729
Interest-bearing demand notes issued to the U.S. Treasury	13,292,856	-
Dividends payable	554,957	500,586
Accrued taxes and other liabilities	2,615,835	2,378,438
8 7/8% subordinated note due 1992	5,000,000	5,000,000
Total liabilities	629,244,758	570,469,497

IDAHO FIRST NATIONAL BANK

Dividends payable	1,171,086	931,546
Federal funds purchased	1,150,000	700,000
United States Treasury borrowings	28,487,086	
Securities sold under agreements to repurchase	73,264,271	51,695,500
Other liabilities	22,500,128	15,592,539
Total Liabilities	1,429,950,122	1,248,153,572

EXAMPLES Disclosure of short-term borrowings in a separate note to financial statements

MERCANTILE BANKSHARES CORPORATION

SHORT-TERM BORROWINGS

The following table summarizes Mercshares' short-term borrowings and their weighted average interest rates at December 31, 1978 and 1977.

1978	Year End		During Year		
	Amount	Rate	Highest	Average	Rate
	(dollars in thousands)				
Federal funds purchased and securities sold under repurchase agreements	$ 74,812	10.0%	$74,812	$42,894	8.1%
Notes payable--U.S. Treasury	14,436	10.3	14,436	1,117	9.7
Commercial paper	14,760	10.5	14,760	8,207	8.5
Total	$104,008	10.1%		$52,218	8.2%
1977					
Federal funds purchased and securities sold under repurchase agreements	$ 10,412	6.3%	$43,893	$21,751	5.5%
Notes payable--banks			3,000	690	8.3
Commercial paper	6,960	6.8	9,660	7,339	5.7
Total	$ 17,372	6.5%		$29,780	5.7%

Notes payable--U.S. Treasury represent fully collateralized notes due to the U.S. Government for tax and loan deposits.

Total outstanding borrowings of commercial paper and notes payable--banks did not exceed total credit lines at any time during 1978 or 1977. Lines of credit at December 31, 1978 were $15,000,000. Mercshares maintains compensating balances, which are not restricted as to withdrawal, aggregating 10% of the total lines of credit.

FIRST NEW MEXICO BANKSHARE CORPORATION

Short-Term Borrowings

The following is a summary of short-term borrowings:

	Federal funds purchased and securities sold under agreements to repurchase	U.S. Treasury demand notes	Total
Year ended December 31, 1978:			
Balance at end of year	$32,187,342	8,626,567	40,813,909
Maximum outstanding at any month end	32,187,342	8,626,567	40,813,909
Average daily balance	28,764,368	612,053	29,376,421
Weighted average interest rate	7.6%	9.4%	7.6%
Year ended December 31, 1977:			
Balance at end of year	$30,246,781	-	30,246,781
Maximum outstanding at any month end	30,246,781	-	30,246,781
Average daily balance	18,897,632	-	18,897,632
Weighted average interest rate	6.2%		6.2%

The weighted average interest rate is computed by dividing total interest for the year by the average daily balance outstanding.

FIRST PENNSYLVANIA CORPORATION

Other borrowed funds.

	December 31, 1978	December 31, 1977
Notes payable, principally to banks	$141,521,000	$163,377,000
Commercial paper	175,428,000	139,434,000
Federal funds purchased-term	65,315,000	63,655,000
U.S. Treasury note account	49,961,000	-
Other short-term borrowings	7,249,000	7,006,000
Short-term borrowings	439,474,000	373,472,000
Senior long-term debt, 5% to 10% due through 1995	95,887,000	82,141,000
	$535,361,000	$455,613,000

The approximate weighted average interest rate and maturity for short-term borrowings included above and for the other short-term borrowings follow:

	December 31, 1978	December 31, 1977	Maturity
Federal funds purchased	10.8%	6.5%	Daily
Federal funds purchased--term	10.8	6.9	Various
Securities sold under agreements to repurchase	9.6	6.5	Daily
Notes payable, principally to banks	11.0	7.4	90 Days
Commercial paper	10.4	6.9	30 Days
U.S. Treasury note account	9.8	-	Demand

HARTFORD NATIONAL CORPORATION

Short-Term Borrowings

Short-term borrowings at December 31, 1978 and 1977 are comprised as follows:

	1978			1977
	Bank (000's omitted)	Corporation	Consolidated Group	Consolidated Group
Federal funds purchased	$ 85,443	$ -	$ 85,443	$ 37,275
Securities sold under agreements to repurchase	118,355	-	118,355	79,289
	203,798	-	203,798	116,564
Treasury tax and loan funds	119,108	-	119,108	-
Revolving credit agreement	-	28,300	28,300	42,500
Other loans	5,378	-	5,378	6,136
	$328,284	$28,300	$356,584	$165,200

UNITED JERSEY BANKS

Commercial Paper

The commercial paper issued by United Jersey Banks was as follows:

		Daily Average for Year		
	Average Rate December 31,	Interest Rate	Amount Outstanding	Maximum Amount Outstanding At Any Month-end
1978	10.02%	7.91	$70,753,000	90,990,000
1977	6.94	5.87	52,900,000	69,534,000

Other Borrowed Funds

Other borrowed funds consisted of the following:

	December 31, 1978	1977
Federal funds purchased	$ 21,600,000	30,925,000
Securities sold under agreements to repurchase	97,541,000	117,583,000
Bank borrowings	25,925,000	44,125,000
Treasury tax and loan deposits	65,017,000	-
Current portion of long-term debt:		
7.95% Notes	20,000,000	-
Other	1,335,000	1,276,000
	$231,418,000	193,909,000

United Jersey Banks maintains lines of credit to support its commercial paper borrowings and for general operating purposes, on which interest rates approximate prime lending rates at the time of borrowing. Unused lines amounted to $54,575,000 and $32,375,000, at December 31, 1978 and 1977, respectively. The lines of credit require maintenance of compensating balances in the amount of 10% or less of the entire line of credit plus an additional 10% of the outstanding loans under such lines. Withdrawals of the compensating balances are not legally restricted.

Effective November 1, 1978 the regulations of the Federal Reserve Banks were revised to require banks to pay interest on Treasury tax and loan deposits. Prior to this date, such deposits were interest free and included in demand deposits.

Information relating to other borrowed funds for 1978 and 1977 is summarized as follows:

	Average Rate December 31,	Daily Average for Year Interest Rate	Daily Average for Year Amount Outstanding	Maximum Amount Outstanding At Any Month-end
Federal funds purchased:				
1978	10.17%	8.10	$ 60,655,000	92,725,000
1977	6.38	5.29	34,751,000	60,700,000
Securities sold under agreements to repurchase:				
1978	9.52	7.22	145,993,000	166,248,000
1977	6.10	5.70	134,916,000	192,085,000
Treasury tax and loan deposits:				
1978	10.45	10.18	4,312,000	65,017,000
1977	-	-	-	-
Bank borrowings:				
1978	11.75	8.68	11,185,000	25,925,000
1977	7.73	6.79	23,397,000	44,125,000

FIRST NATIONAL BANK OF NEW JERSEY

Borrowed Funds

Borrowed funds consist of the following:

	December 31 1978	1977
Federal funds purchased	$ 2,950,000	$ 5,650,000
Securities sold under repurchase agreements	7,165,320	9,047,500
Demand notes	10,000,000	
	$20,115,320	$14,697,500

Most federal funds purchased mature in one day and the majority of securities sold under repurchase agreements mature within 30 days. Average interest rate on federal funds purchased and securities sold under repurchase agreements at December 31, 1978 and 1977 was 9.76% and 6.47%, respectively. Demand notes (note balances) issued to the U.S. Treasury are payable on demand. Average interest rate on these notes was 9.52% at December 31, 1978.

MERCHANTS NATIONAL CORPORATION

SHORT-TERM BORROWINGS

Short-term borrowings on the consolidated balance sheet are comprised of the following:

	December 31 1978	1977
Federal Funds Purchased and Securities Sold Under Repurchase Agreements	$251,562,000	$223,860,000
Commercial Paper	55,844,177	37,055,500
Notes Payable to Other Banks	35,159	5,014,486(1)
Other Short-term Borrowings	26,428,932	8,950,814
	$331,870,268	$274,880,800

(1) At December 31, 1977, Circle Leasing Corp. had a $5,000,000 note payable to a non-related bank. The debt, which was guaranteed by the Corporation, was paid March 1, 1978.

The Corporation sells its commercial paper directly to individuals, partnerships and corporations in various amounts with certificate maturities not exceeding 270 days. In connection with the issuance of commercial paper, the Corporation maintains back-up lines of credit which informally require compensating balances. These balances were $5,000,000 and $4,000,000 at December 31, 1978 and 1977, respectively.

A summary of the Corporation's short-term borrowings is presented below:

	1978		1977	
	Amount	Average Rate	Amount	Average Rate
At December 31:				
Funds Purchased	$251,562,000	10.2%	$223,860,000	6.1%
Commercial Paper	55,844,177	8.7	37,655,500	6.0
Total Short-term Borrowings	333,870,268	9.9	274,880,800	6.1
Daily averages for the year:				
Funds Purchased	$222,947,000	7.6%	$220,889,000	5.2%
Commercial Paper	47,211,000	7.8	35,803,000	5.5
Total Short-term Borrowings	280,065,000	7.6	294,000,000	5.1
Maximum amount outstanding at any month-end during the year:				
Funds Purchased	$321,250,000		$383,904,000	
Commercial Paper	55,844,177		42,048,000	
Total Short-term Borrowings	375,231,000		429,145,185	

BANKS OF IOWA, INC.

Short-term Borrowings

Information relative to the short-term borrowings of the Company follows:

	December 31,	
	1978	1977
Federal funds purchased and securities sold under agreements to repurchase	$63,940,446	$57,556,850
U.S. Treasury note accounts	12,398,388	-
	$76,338,834	$57,556,850
Daily average amount outstanding during the year	$63,815,000	$45,644,000
Maximum outstanding as of any month end	84,097,160	57,556,850
Weighted average interest rate during the year	7.7%	5.3%
Weighted average interest rate at year end	10.4%	6.3%

The average and maximum amount outstanding along with the rates of interest relate only to Federal funds purchased and securities sold under agreements to repurchase.

EXAMPLES Disclosure of short-term borrowings (statement of condition)

FIRST & MERCHANTS CORPORATION

Borrowed funds:		
Federal funds purchased and securities sold under agreements to repurchase	301,361	193,273
Commercial paper	5,779	37,880
Other short-term borrowings	80,196	27,282
Total borrowed funds	387,336	258,435

BARNETT BANKS OF FLORIDA, INC.

Short-term borrowings:		
Federal funds purchased and securities sold under agreements to repurchase	125,313	29,188
Other short-term borrowings	15,498	6,624

FIRST FLORIDA BANKS, INC.

Federal Funds purchased and securities sold under agreements to repurchase	142,715	76,047
Other short-term borrowings	5,021	10,750

EXAMPLES Capital lease obligations (see Section G)

EXAMPLES Disclosure of long-term debt in a separate footnote

FIRST BANK SYSTEM, INC.

Long-term Debt

Long-term debt (debt with original maturities of more than one year) at December 31, consisted of the following (in thousands):

	1978	1977
Parent Company:		
6 3/4% Notes--due September 15, 1979	$ 70,000	$ 70,000
8 3/4% Notes--due June 30, 1983	50,000	50,000
Notes--9.10%-9.375%-maturities to December 30, 1983	4,000	-
6 1/4% Convertible Subordinated Debentures--due June 30, 2000	50,000	50,000
	174,000	170,000
Subsidiaries:		
Subordinated Debentures--4 1/2%-7 1/2% due July 1, 1981	1,027	1,027
Mortgage indebtedness	8,660	8,908
Subordinated Capital Note	5,000	5,000
Capital lease obligations	6,187	8,389
	$194,874	$193,324

The 6 3/4% Notes may be redeemed without premium on and after April 1, 1979, and the 8 3/4% Notes may be redeemed without premium on and after September 1, 1982.

The 6 1/4% Convertible Subordinated Debentures are convertible into Capital Stock at a conversion price of $48.50 per share subject to adjustments in certain events. The Debentures are redeemable at the option of the Parent Company, in whole or in part, at a premium of 5.32% beginning on June 30, 1978, declining to .32% on June 30, 1994, and without premium on June 30, 1995. The Parent Company has reserved 1,030,928 shares of its authorized but unissued shares of Capital Stock for conversion of these Debentures.

Mortgage indebtedness consisted of notes secured by deeds of trust on bank premises with a net book value of $22,956,000 at December 31, 1978, and $19,341,000 at December 31, 1977. Interest on the notes ranged from 4.5% to 8.75%, with maturities to 1998.

The Subordinated Capital Note bears interest at 1/4% over prime. Quarterly principal installments of $416,667 are payable from December 31, 1979 through September 30, 1982. The Note may be repaid in whole or in part without premium or penalty at the option of the Bank.

Maturities of long-term debt outstanding at December 31, 1978, were (in thousands):

	Consolidated	Parent Company Only
1979	$ 73,284	$ 70,000
1980	4,294	-
1981	6,186	1,500
1982	2,704	-
1983	53,787	52,500
Thereafter	54,619	50,000
	$194,874	$174,000

MANUFACTURERS NATIONAL CORPORATION

Subordinated and Other Notes

Subordinated and other notes consisted of the following at year-end:

	1978	1977
Manufacturers National Corporation:		
9.25% Senior Notes due 1996	$16,000,000	$16,000,000
5% convertible subordinated notes due 1994	5,070,000	9,839,000
9% convertible subordinated notes due 1985 to 1987	8,100,000	8,100,000
Total parent company only	29,170,000	33,939,000
Manufacturers Bank-Detroit and subsidiaries:		
4.65% subordinated notes due 1989	16,000,000	17,000,000
Notes of mortgage banking subsidiary	4,743,000	5,287,000
Total Manufacturers Bank-Detroit and subsidiaries	20,743,000	22,287,000
Manufacturers Bank of Southfield, N.A.:		
8.5% mortgage note	-	4,700,000
8% subordinated notes due 1981	910,000	910,000
	$50,823,000	$61,836,000

In February, 1977, the Corporation, in a private offering to an institutional investor, issued $16,000,000 of 9.25% Senior Notes due December 15, 1996. The notes are payable in fifteen equal annual installments beginning on December 15, 1982. At its option, the Corporation may prepay between $500,000 and $1,067,000 on each installment date without premium and may make additional prepayments of all or part of the notes, in multiples of $500,000 at declining premiums (currently 8.277%) until December 15, 1995 and without premium thereafter. The agreement provides, among other things, that the aggregate of certain payments, including dividends, is restricted to $13,000,000 plus net income accumulated after December 31, 1976. Accordingly, $50,479,000 of retained earnings is free of such restriction at December 31, 1978.

COMMONWEALTH BANKS, INC.

Long-term Debt and Mortgages Payable:

Long-term debt and mortgages payable consist of:

	(Thousands of dollars) December 31, 1978	1977
Long-term debt:		
Commonwealth Banks, Inc. (Parent):		
Term loans	$18,000	$18,000
9½% capital notes due July 1, 1980	7,500	7,500
9% capital notes due July 1, 1983	6,000	6,000
	31,500	31,500
Mortgages payable:		
Consolidated subsidiaries:		
Mortgage notes with interest rates from 6% to 8%, secured	201	193
Total long-term debt and mortgage payable	$31,701	$31,693

At December 31, 1978 the $18,000,000 term loans consist of loans from two banks in the amounts of $10,000,000 and $3,000,000, respectively, and loans from two insurance companies in the aggregate of $5,000,000.

The $10,000,000 term loan was scheduled to mature on March 1, 1984; however, on January 23, 1979 the loan was paid with the proceeds of a $15,000,000 loan. The $15,000,000 loan is evidenced by a $10,000,000 promissory note bearing interest at a fixed rate of 9.875% per annum and a $5,000,000 promissory note bearing interest at rates ranging initially from 108% of Chase Manhattan Bank's ("Chase") prime commercial lending rate and increasing from time to time to 118% of such rate until December 31, 1985. Thereafter, the interest rate shall be 120% of Chase's prime commercial lending rate. Both notes shall mature on January 1, 1987, and each provides for mandatory quarterly payments commencing January 1, 1982 of $330,000 and $165,000, respectively, and final payments at maturity of $3,400,000 and $1,700,000, respectively. Interest is payable quarterly commencing April 1, 1979.

The $3,000,000 term loan was scheduled to mature on November 25, 1982; however, on February 2, 1979 the loan was paid with the proceeds of an $8,000,000 loan. The $8,000,000 loan is payable in 20 equal consecutive quarterly instalments of $250,000 each, commencing on January 1, 1982 and ending October 1, 1986, with a final instalment of $3,000,000 due on January 1, 1987. This loan bears interest at an initial rate of 103% of Bankers Trust Company's prime commercial rate, increasing prior to maturity to 112% of such rate. Interest is payable quarterly commencing April 1. 1979.

The loans from two insurance companies totaling $5,000,000 were scheduled to mature on November 25, 1997. The underlying agreements provide that upon the effectiveness of the consolidation of Fidelity and Central, the lenders may, upon written notice, accelerate payment of principal and interest and declare the same to be due and payable on a date set forth in said notice. On December 26, 1978 Central received notice declaring the $5,000,000 due and payable within the first six months of 1979. Commonwealth intends to pay these notes before June 30, 1979 with a portion of the unused proceeds of the notes discussed above. The $5,000,000 notes bear interest at 9% per annum, payable quarterly.

The $5,000,000 balance of loan proceeds will be used for general corporate purposes.

Under the terms of the loan agreements, restrictions exist as to the incurrence of liens on assets, the declaration and payment of cash dividends, and the issuance of funded debt as defined. Cash dividends paid subsequent to December 31, 1979 may not exceed in the aggregate 60% of the consolidated net income subsequent to December 31, 1978.

The 9½% capital notes are unsecured debt obligations of Commonwealth and are subject to prepayment, in whole or in part, prior to maturity. At Commonwealth's option, subject to thirty days notice to noteholders, the notes may be prepaid without premium. Interest on the notes is payable quarterly on the first day of January, April, July and October.

The 9% notes are unsecured debt obligations of Commonwealth and are subject to prepayment, in whole or in part, prior to maturity. At Commonwealth's option, subject to thirty days notice to noteholders, the notes are prepayable without premium. Interest on the notes is payable quarterly on the first day of January, April, July and October.

Scheduled payments on the principal of the notes payable at February 2, 1979 are:

	(Thousands of dollars)
1979	$5,040
1980	7,535
1981	19
1982	2,989
1983	8,993

SECURITY NEW YORK STATE CORPORATION

Long-Term Debt

Summary of long-term debt

	1978	1977
	(Amounts in Thousands)	
5.95% Series A debenture due 1991 payable in annual installments of $90,000 with $450,000 payable at maturity	$ 1,530	$ 1,620
8.65% bonds due 1992 payable in annual installments of $585,000 with $640,000 payable at maturity	8,245	8,830
5.30% capital notes due 1989 payable in annual installments of $300,000 with $1,500,000 payable at maturity	4,500	4,800
4.75% mortgage notes payable due 1988 payable in semi-annual installments of $153,132 (principal and interest)	2,416	2,600
6% capital notes due 1987 payable in monthly installments of $7,164 (principal and interest)	597	646
8.70% capital notes due 1997 payable in annual installments of $100,000 beginning in 1983	1,500	1,500
9.75% mortgage note due 2004 payable in monthly installments of $13,375 (principal and interest)	-	1,188
9.37% mortgage note due 1989 payable in monthly installments of $9,563 (principal and interest)	-	1,125
Other debt	1,124	893
Total long-term debt	$19,912	$23,202

Among the provisions of the several debt agreements are restrictions relating to the payment of cash dividends. Under the most restrictive of these provisions, approximately $1,947,000 of undivided profits is available for such dividends at December 31, 1978. The required principal payments on long-term debt for 1979-1983, assuming the Floating Rate Notes are held to maturity, are as follows: $1,241,000--1979; $1,255,000--1980; $1,268,000--1981; $1,282,000--1982; $1,396,000--1983.

SOUTH CAROLINA NATIONAL CORPORATION

Long-Term Debt:
Long-term debt of the Company and its subsidiaries includes the following:

	December 31, 1978	1977
	(Dollars in Thousands)	
Parent		
Senior notes 8 7/8% due 1998	$20,000	$ -
Term note, interest at prime plus ½% due 1978-1980	-	6,251
The Bank		
Subordinated capital notes 8 3/4% due 1983	3,249	3,249
Non-recourse lease financing secured note, 10½% due 1979-1992	3,615	3,727
Capital note with Parent Company	9,000	3,751
Finance Subsidiaries		
Subordinated debt:		
Senior subordinated notes 7½%-10% due 1979-1986	1,010	1,020
Junior subordinated notes 8% due 1979	5	30
Capital debt, 6 3/4% due 1983-1985	350	805
Note payable to Parent Company	3,000	3,000
	40,229	21,833
Less amounts payable to Parent Company	(12,000)	(6,751)
	$28,229	$15,082

The Company entered into an agreement dated February 20, 1978, for the private placement of $20,000,000 of 8 7/8% senior notes due 1998. The notes provide for mandatory sinking fund payments of $1,300,000 beginning in 1984 through 1997 and $1,800,000 in 1998. The agreement covering the senior notes, among other things, limits consolidated funded debt to 45% of the sum of the consolidated funded debt and consolidated capital, and the agreement limits cash dividends to 75% of consolidated net income since January 1, 1977, plus $6,000,000. Provisions of the Finance Subsidiaries' long-term borrowing agreements include covenants relating to limitations on borrowings and investments in businesses other than finance and insurance and to the amount of retained earnings available for the payment of cash dividends. Under such provisions approximately $15,946,000 of consolidated retained earnings and $2,460,000 of combined retained earnings of the Company and Finance Subsidiaries, respectively, at December 31, 1978, were unrestricted as to the payment of cash dividends.

Maturities of long-term debt payable to the Parent Company and to others over the next five years are as follows:

	To Parent Company	To Others		
	Finance Subsidiaries	The Bank	Finance Subsidiaries	Consolidated
	(Dollars in Thousands)			
1979	$ -	$ 125	$ 15	$ 140
1980	600	139	-	139
1981	600	154	-	154
1982	600	171	200	371
1983	600	3,439	300	3,739

EXAMPLES Subordinated or capital notes and debentures classified in liabilities in statement of condition (excerpt from statement of condition)

SUMITOMO BANK OF CALIFORNIA

Total deposits	1,113,850,200	1,332,208,798
Funds borrowed	15,429,055	35,364,327
Acceptances outstanding	16,241,415	16,610,643
Other liabilities	10,640,136	16,116,071
Subordinated notes and debentures	24,674,000	30,619,000
Total liabilities	1,180,834,806	1,430,918,839
Shareholder's equity		

UNITED CAROLINA BANCSHARES CORPORATION

Total deposits	539,854,000	495,745,000
Federal funds purchased and securities sold under agreement to repurchase	4,325,000	4,945,000
Mortgages and notes payable	12,765,000	6,860,000
Subordinated debt	10,425,000	10,625,000
Accrued taxes, expenses, and other liabilities	7,771,000	6,655,000
Total liabilities	575,140,000	524,830,000
Stockholders' equity		

EXCHANGE BANCORPORATION, INC.

Total deposits	709,212	662,940
Federal funds purchased and securities sold under agreements to repurchase	55,128	47,272
Notes and mortgage notes payable	14,970	14,289
5.375% convertible subordinated debentures	9,897	10,092
10% subordinated debentures	2,055	2,093
Total deposits and borrowed funds	791,262	736,686
Other liabilities	5,199	6,320
Total liabilities	796,461	743,006
Minority interests	1,953	2,177
Shareholders' equity:		

EQUIMARK CORPORATION

Total deposits	2,015,910	1,958,109
Federal funds purchased and securities sold under agreements to repurchase	243,941	256,091
Other funds borrowed	26,320	10,138
Commercial paper	65,338	52,709
Accrued interest and taxes	48,220	42,308
Acceptances outstanding	13,400	20,317
Other liabilities	6,154	6,653
	2,419,283	2,346,325
Corporate and capital notes:		
8% corporate promissory notes	18,675	20,000
Corporate term note	10,000	10,000
5% capital notes of Equibank N.A.	11,858	12,333
5-1/4% capital notes of Equibank N.A.	4,690	4,942
Total corporate and capital notes	45,223	47,275
Total Liabilities	2,464,506	2,393,600
Shareholders' Equity		

EXAMPLES Subordinated or capital notes and debentures classified between liabilities and equity

CONTINENTAL BANK

Total Liabilities (excluding subordinated capital notes)	1,303,262,000	1,165,480,000
Subordinated Capital Notes:		
7-1/2% notes due 1983	25,000,000	25,000,000
5-1/2% notes due serially to 1991	440,000	460,000
Total Subordinated Capital Notes	25,440,000	25,460,000
Shareholders' Equity:		

BANKERS TRUST OF SOUTH CAROLINA

Total Liabilities	673,572,115	620,495,670	8.6
Subordinated notes	12,500,000	12,500,000	-
Shareholders' Equity			

LA SALLE NATIONAL BANK

Total Liabilities	895,339	805,815
Subordinated Notes and Debentures--		
7-1/8% Notes Due September 1, 1979	3,000	3,000
4-3/4% Debentures Due October 15, 1989	2,750	3,000
7% Debentures Due October 15, 1993	2,250	2,400
Total Subordinated Notes and Debentures	8,000	8,400
Equity Capital Accounts:		

BANK OF TOKYO TRUST COMPANY

Liabilities other than capital notes	2,715,216,697	2,279,024,133
Capital notes	48,000,000	38,000,000
Total liabilities	2,763,216,697	2,317,024,133
Stockholders' equity:		

SOUTHEAST NATIONAL BANK OF PENNSYLVANIA

Total Liabilities	$550,285,000	$515,333,000
Subordinated capital notes	$ 13,000,000	$ 13,000,000
Shareholders' Equity		

ARIZONA BANK

Total other liabilities	$122,496,352	$102,910,445
Subordinated Notes	$ 27,900,000	$ 18,350,000
Equity Capital		

EXAMPLE Other liabilities—detail captions in footnote

SHAWMUT CORPORATION

An analysis of accounts payable and accrued liabilities at December 31, 1978 and 1977 is as follows:

	1978	1977
	(In Thousands)	
Interest payable	$14,276	$ 7,583
Accrued expenses	3,184	2,392
Reserve for income taxes	7,310	3,530
Securities borrowed	-	8,000
Dividends payable	935	841
Other	2,797	2,976
	$28,502	$25,322

SECTION D

Statement of Income

Statement of income title and format

Generally, reports of commercial banks and holding companies referred to the statement presenting results of operations as either the "Statement of Income" (87% in 1978 and 90% in 1977) or the "Statement of Earnings" (9% in both years).

Table 37 indicates that an increasing percentage of survey companies used the net interest margin format (required by the revised Article 9 of Regulation S-X) in presenting both the statement of income and the summary of operations. Examples in this section show the net interest margin format as well as the other formats.

Table 37. Statement of Income Format

	Commercial Banks		Multi-bank Holding Companies		One-bank Holding Companies		Total Companies	
	78	77	78	77	78	77	78	77
Companies using net interest margin format in:								
Statement of income	12%	10%	1%	3%	6%	3%	5%	5%
Summary of operations	3	9	2	17		16	2	15
Statement of income and summary of operations	55	18	91	48	84	45	80	40
	70	37	94	68	90	64	87	60
Companies not using net interest margin approach	30	63	6	32	10	36	13	40
	100%	100%	100%	100%	100%	100%	100%	100%

EXAMPLES Statement of income-net interest margin presented

BANKAMERICA CORPORATION

	Year Ended December 31,		Change	
	1978	1977	Amount	Percent
	(Dollar amounts in thousands)			
Interest on loans	$4,499,389	$3,413,155	$1,086,234	31.8%
Loan fees	194,282	145,783	48,499	33.3
Interest and dividends on investment securities:				
Taxable interest and dividend revenue	372,352	314,744	57,608	18.3
Nontaxable interest revenue	148,672	142,685	5,987	4.2
Interest on trading account securities	25,529	19,746	5,783	29.3
Interest on deposits	886,645	691,766	194,879	28.2
Interest on funds sold	235,047	166,945	68,102	40.8
Net leasing revenue	84,753	82,849	1,904	2.3
Total interest revenue	6,446,699	4,977,673	1,468,996	29.5
Interest on deposit liabilities	3,597,075	2,778,635	818,440	29.5
Interest on short-term borrowings	465,363	268,507	196,856	73.3
Interest on long-term debt	96,415	91,683	4,732	5.2
Total interest expense	4,158,853	3,138,825	1,020,028	32.5
Net interest revenue	2,287,816	1,838,848	448,968	24.4
Provision for loan losses	176,692	146,664	30,028	20.5
Net interest revenue after provision for loan losses	2,111,124	1,692,184	418,940	24.8
Trading account securities profit and commissions	13,521	8,489	5,032	59.3
Profit on foreign exchange activities	69,904	47,081	22,823	48.5
Service charges on deposit accounts	66,589	59,769	6,820	11.4
Trust Department fees	49,319	43,939	5,380	12.2
Business services fees	42,960	36,843	6,117	16.6
Other revenue	274,666	249,770	24,896	10.0
Total noninterest revenue	516,959	445,891	71,068	15.9
Salaries	839,099	738,450	100,649	13.6
Pension and other employee benefits	174,128	137,435	36,693	26.7
Total personnel expense	1,013,227	875,885	137,342	15.7
Net occupancy expense--premises	166,350	145,477	20,873	14.3
Equipment--rentals, depreciation, maintenance	113,864	80,222	33,642	41.9
Other expense	490,441	393,196	97,245	24.7
Other noninterest expense	770,655	618,895	151,760	24.5
Income before income taxes and securities transactions	844,201	643,295	200,906	31.2
Applicable income taxes	329,983	248,202	81,781	32.9
Income before Securities Transactions	514,218	395,093	119,125	30.2
Net profit (loss) on securities transactions--after related income tax effect: 1978--$(16,325), 1977--$400	(16,298)	1,183	(17,481)	
Net Income	$ 497,920	$ 396,276	$ 101,644	25.6%
Average number of shares outstanding	145,874,232	145,702,251	171,981	0.1%
Per share:				
Income before securities transactions	$ 3.53	$ 2.71	$ 0.82	30.3%
Net income	$ 3.41	$ 2.72	$ 0.69	25.4%
Dividends paid	$ 1.02	$ 0.87	$ 0.15	17.2%

CITIZENS FIDELITY CORPORATION

	Year ended December 31	
	1978	1977
Interest income:		
Interest and fees on loans	$81,266,000	$61,325,000
Interest on federal funds sold	4,944,000	4,623,000
Interest on investments:		
U.S. Treasury and agency securities	6,481,000	5,865,000
Obligations of states and political subdivisions	5,032,000	4,340,000
Other securities	138,000	109,000
Other interest income	228,000	134,000
	98,089,000	76,396,000
Interest expense:		
Interest on savings	6,468,000	5,687,000
Interest on other time deposits	27,520,000	18,528,000
Interest on borrowed money	14,635,000	10,153,000
	48,623,000	34,368,000
Net interest income	49,466,000	42,028,000
Provision for loan losses	4,400,000	3,018,000
Net Interest Income After Provision for Loan Losses	45,066,000	39,010,000
Other operating income:		
Trading account income	562,000	392,000
Trust department income	4,519,000	4,350,000
Service charges on deposit accounts	3,450,000	2,996,000
Other service charges, commissions and fees	7,479,000	5,760,000
Other income	858,000	1,103,000
	61,934,000	53,611,000
Operating expenses:		
Salaries	18,325,000	16,042,000
Pension and other employee benefits	4,632,000	4,182,000
Occupancy	3,326,000	3,237,000
Equipment rental and depreciation of furniture and equipment	5,171,000	4,775,000
Other	12,486,000	10,757,000
	43,940,000	38,993,000
Income before income taxes and securities transactions	17,994,000	14,618,000
Applicable income taxes	5,124,000	3,615,000
Income Before Securities Transactions	12,870,000	11,003,000
Securities transactions, less income tax credits of $415,000 in 1978 and $20,000 in 1977	(449,000)	(21,000)
Net Income	$12,421,000	$10,982,000

	Year ended December 31	
	1978	1977
Income per share (based on 3,733,976 average shares outstanding):		
Income before securities transactions	$ 3.45	$ 2.95
Securities transactions	(.12)	(.01)
Net Income	$ 3.33	$ 2.94

LIBERTY NATIONAL BANK AND TRUST COMPANY OF LOUISVILLE

	Years ended December 31,	
	1978	1977
Interest income:		
Interest and fees on loans	$39,885,419	$29,290,654
Interest on trading account securities	142,583	154,104
Lease financing income	1,159,200	1,144,312
Interest on deposits with banks	380,328	405,973
Interest on Federal funds sold and securities purchased under agreement to resell	2,697,747	3,424,459
Interest and dividends on investment securities:		
United States Treasury securities	3,198,566	3,230,283
Securities of U.S. Government agencies	541,700	574,933
Obligations of states and political subdivisions	2,962,996	2,645,157
Other securities	264,471	75,653
Total interest income	51,233,010	40,945,528
Interest expense:		
Interest on deposits	17,691,925	14,250,960
Interest on Federal funds purchased and securities sold under agreements to repurchase	6,395,064	4,680,513
Interest on other borrowed funds	58,642	-
Interest on subordinated notes	450,000	448,750
Total interest expense	24,595,631	19,380,223
Net interest income	26,637,379	21,565,305
Provision for loan and lease losses	2,184,243	1,103,091
Net interest income, after provision for loan and lease losses	24,453,136	20,462,214

	Years ended December 31, 1978	1977
Other operating income:		
Trading account profits (losses) and commissions	56,701	(87,962)
Trust income	1,001,099	1,104,989
Service charges on deposit accounts	1,294,400	1,136,810
Other	1,260,639	917,640
Total other operating income	3,612,839	3,071,477
	28,065,975	23,533,691
Other operating expenses:		
Salaries and wages	8,954,210	7,884,223
Employee benefits	1,748,581	1,546,503
Net occupancy expenses	1,780,157	1,634,462
Equipment expenses	2,079,794	1,947,933
Other	5,885,898	5,069,922
Total other operating expenses	20,448,640	18,083,043
Income before income taxes and security transactions	7,617,335	5,450,648
Less applicable income taxes	1,818,457	1,030,212
Income before security transactions	5,798,878	4,420,436
Net securities gains (losses) (less related income tax effect of $122,926 in 1978 and $39,701 in 1977)	(133,170)	43,030
Net income	$ 5,665,708	$ 4,463,466
Income per share (based on 1,224,000 shares outstanding):		
Income before security transactions	$ 4.74	$ 3.61
Net securities gains (losses) (less related income tax effect)	(.11)	.04
Net income	$ 4.63	$ 3.65

UNION FIRST NATIONAL BANK OF WASHINGTON

	Year ended December 31 1978	1977
Interest Income		
Interest and fees on loans	$27,823,384	$20,269,220
Interest and dividends on investment securities:		
United States Treasury securities	4,954,909	5,570,850
Obligations of United States Government agencies	2,091,512	1,891,240
Obligations of States and political subdivisions	3,383,757	3,226,028
Other securities	53,034	75,249
Interest on Federal funds sold	3,434,780	2,054,854
Other interest income	4,324	36,144
Total Interest Income	41,745,700	33,123,585
Interest Expense		
Interest on deposits:		
Savings deposits	6,236,101	6,252,755
Time deposits	3,800,967	4,165,564
Certificates of deposit of $100,000 or more	3,770,739	1,597,435
Interest on Federal funds purchased and securities sold under repurchase agreements	5,660,918	2,465,357
Other interest expense	122,858	39,528
Total Interest Expense	19,591,583	14,520,639
Net Interest Income	22,154,117	18,602,946
Provision for loan losses	470,000	810,185
Net Interest Income After Provision for Loan Losses	21,684,117	17,792,761
Other Income		
Trust department income	1,525,540	1,300,282
Service charges on deposit accounts	1,367,921	1,286,428
Other operating income	945,841	689,006
	3,839,302	3,275,716
Other Expenses		
Salaries and employee benefits	10,738,764	9,580,972
Net occupancy of bank premises, including depreciation of $408,473 in 1978 and $367,576 in 1977	1,849,821	1,683,405
Equipment rental, depreciation and maintenance	1,177,459	1,115,411
Other operating expenses	3,546,645	3,306,091
	17,312,689	15,685,879
Income Before Income Taxes and Security Gains (Losses)	8,210,730	5,382,598
Applicable income taxes	2,724,630	1,305,235
Income Before Security Gains (Losses)	5,486,100	4,077,363
Security gains (losses), less related Federal income tax effect of $63,391 and ($38,278)	(68,674)	41,468
Net Income	$ 5,417,426	$ 4,118,831
Earnings Per Share		
Income before security gains (losses)	$ 2.41	$ 1.79
Security gains (losses), less related Federal income tax effect	(.03)	.02
Net Income	$ 2.38	$ 1.81

FIRST WISCONSIN CORPORATION

	Years Ended December 31		Change	
	1978	1977	Amount	Percent
	(Thousands of Dollars)			
INTEREST REVENUE				
Interest and Fees on Loans:				
Business Loans:				
Commercial Short-Term	$ 36,349	$ 24,253	$12,096	49.9%
Commercial Term	23,284	17,835	5,449	30.6
International:				
Domestic Offices	29,444	21,802	7,642	35.1
Foreign Office	6,962	5,683	1,279	22.5
Acceptances Discounted	4,993	3,291	1,702	51.7
Construction	2,307	2,520	(213)	(8.5)
Income Property	11,066	8,451	2,615	30.9
Other	9,902	7,314	2,588	35.4
Total Business Loan Revenue	124,307	91,149	33,158	36.4
Individual Loans:				
Installment	20,897	16,841	4,056	24.1
Charge Card	27,171	21,633	5,538	25.6
Residential Mortgages	33,188	27,758	5,430	19.6
Other	10,978	8,448	2,530	29.9
Total Individual Loan Revenue	92,234	74,680	17,554	23.5
Total Loan Revenue	216,541	165,829	50,712	30.6
Interest on Investment Securities:				
Taxable	33,353	32,761	592	1.8
Non-Taxable	6,457	4,464	1,993	44.6
Total Investment Securities Revenue	39,810	37,225	2,585	6.9
Interest on Trading Account Securities:				
Taxable	1,034	744	290	39.0
Non-Taxable	421	264	157	59.5
Total Trading Account Securities Revenue	1,455	1,008	447	44.3
Other Interest Revenue:				
Interest Bearing Deposits	28,654	25,082	3,572	14.2
Federal Funds Sold and Securities Purchased under Resale Agreements	6,860	7,538	(678)	(9.0)
Total Other Interest Revenue	35,514	32,620	2,894	8.9
Total Interest Revenue	293,320	236,682	56,638	23.9
INTEREST EXPENSE				
Interest on Time Deposits:				
Savings Passbook	29,552	28,374	1,178	4.2
Other Personal	34,769	32,386	2,383	7.4
Business and Municipal	30,876	20,958	9,918	47.3
Foreign Office	35,065	26,761	8,304	31.0
Total Time Deposit Interest	130,262	108,479	21,783	20.1
Interest on Borrowed Funds:				
Short-Term Borrowings	53,489	31,062	22,427	72.2
Debentures, Notes and Other Debt	6,552	6,351	201	3.2
Total Borrowed Funds Interest	60,041	37,413	22,628	60.5
Total Interest Expense	190,303	145,892	44,411	30.4
NET INTEREST REVENUE	103,017	90,790	12,227	13.5
Provision for Possible Losses on Loans	4,157	5,914	(1,757)	(29.7)%
NET INTEREST REVENUE AFTER LOAN PROVISION	98,860	84,876	13,984	16.5
OTHER OPERATING REVENUE				
Trading Securities Gains or Losses	1,074	1,086	(12)	(1.1)
Service Charges on Deposit Accounts	4,113	3,803	310	8.2
Data Processing Fees	5,261	4,380	881	20.1
Trust Service Fees	10,395	9,744	651	6.7
Foreign Exchange Gains or Losses	2,360	3,377	(1,017)	(30.1)
Other Revenue	9,685	8,291	1,394	16.8
Total Other Operating Revenue	32,888	30,681	2,207	7.2
OPERATING EXPENSE				
Salaries	49,148	44,063	5,085	11.5
Employee Benefits	9,810	8,544	1,266	14.8
Net Occupancy Expense	7,321	7,235	86	1.2
Equipment Rentals, Depreciation and Maintenance	9,051	7,014	2,037	29.0
Other Expense	27,912	29,337	(1,425)	(4.9)
Total Operating Expense	103,242	96,193	7,049	7.3

	Years Ended December 31		Change	
	1978	1977	Amount	Percent
	(Thousand of Dollars)			
Income Before Income Taxes, Minority Interest and Securities Gains or Losses	28,506	19,364	9,142	47.2
Applicable Income Taxes	10,100	6,420	3,680	57.3
Minority Interest	317	259	58	22.4
INCOME BEFORE SECURITIES GAINS OR LOSSES	18,089	12,685	5,404	42.6
Securities Gains or (Losses) net of Income Tax Effect and Minority Interest (Gross 1978 $(1,889); 1977 $1,018)	(902)	485	(1,387)	(286.0)
NET INCOME	$ 17,187	$ 13,170	$ 4,017	30.5

	Years Ended December 31		Change	
	1978	1977	Amount	Percent
	(Thousands of Dollars)			
PER SHARE				
Income Before Securities Gains or Losses	$ 4.33	$ 3.05	$ 1.28	42.0
Net Income	4.12	3.16	.96	30.4
Dividends	1.76	1.76		
AVERAGE SHARES OUTSTANDING	4,173,487	4,164,513		

EXAMPLES Statement of income--other presentation

WILMINGTON TRUST COMPANY

	For the Calendar Year		
	1978	1977	Increase (Decrease)
Operating Income:			
Interest and Fees on Loans	$ 34,819,328	$26,503,439	$ 8,315,889
Interest on Time Deposits	5,062,065	5,036,979	25,086
Income from Investment in Leveraged Leases	505,959	749,294	(243,335)
Income on Federal Funds Sold and Securities Purchased Under Agreement to Resell	2,034,657	2,470,749	(436,092)
Interest and Dividends on Investments:			
U.S. Treasury Securities	28,547,775	25,136,450	3,411,325
Securities of other U.S. Gov't. Agencies	13,394,716	5,518,297	7,876,419
State and Municipal Securities	8,941,257	10,044,452	(1,103,195)
Other Securities	5,453,397	3,296,988	2,156,409
Trading Account Gain (Loss), Net	(840,106)	-	(840,106)
Trust Department Income	9,684,383	8,453,208	1,231,175
Service Charges on Deposit Accounts	771,128	636,935	134,193
Other Service Charges and Fees	452,795	455,209	(2,414)
Other	454,421	718,482	(264,061)
Total Operating Income	109,281,775	89,020,482	20,261,293
Operating Expenses:			
Salaries and Wages	15,870,118	14,496,422	1,373,696
Pensions and Other Employee Benefits	4,123,259	3,167,358	955,901
Interest on Deposits	39,038,876	30,813,338	8,225,538
Expense of Federal Funds Purchased and Securities Sold Under Agreement to Repurchase	25,863,143	14,907,599	10,955,544
Interest on Capital Notes	1,800,000	1,800,000	-
Net Occupancy Expense of Bank Premises	1,999,353	1,850,241	149,112
Furniture and Equipment Expense	2,620,009	2,446,391	173,618
Provision for Loan Losses	112,500	975,000	(862,500)
Other	7,066,560	6,096,554	970,006
Total Operating Expenses	98,493,818	76,552,903	21,940,915
Income Before Income Taxes and Security Gains	10,787,957	12,467,579	(1,679,622)
Applicable Income Taxes	476,017	1,148,589	(672,572)
Income Before Security Gains	10,311,940	11,318,990	(1,007,050)
Security Gain Net of Income Taxes of $758,999 in 1978 and $1,724,067 in 1977	686,163	1,558,621	(872,458)
Net Income	$ 10,998,103	$12,877,611	$(1,879,508)
Per Share Earnings:			
Income Before Security Gains	$ 5.16	$ 5.65	$ (.49)
Net Income	$ 5.50	$ 6.43	$ (.93)

NATIONAL COMMERCE BANCORPORATION

	Year Ended December 31	
	1978	1977
	(In Thousands, Except Per Share Amounts)	
OPERATING INCOME:		
Interest on loans	$30,167	$23,288
Interest on federal funds sold and securities purchased under agreement to resell	3,399	3,628
Interest on investments:		
U.S. Treasury securities	3,154	3,037
Securities of other Government agencies and corporations	2,621	2,156
Obligations of states and political subdivisions	3,191	2,760
Other securities	144	246
Trading account income	91	91
Trust department income	1,126	977
Service charges on deposit accounts	1,670	1,233
Other service charges, collection and exchange charges, commissions and fees	1,322	1,384
Other operating income	3,002	3,483
Total Operating Income	49,887	42,283
OPERATING EXPENSE:		
Interest on time certificates of deposits of $100,000 or more	7,289	3,528
Interest on other deposits	12,481	12,174
Expense of federal funds purchased and securities sold under agreements to repurchase	5,489	4,190
Interest on borrowed money	26	20
Provision for possible loan losses	1,076	850
Salaries and wages	9,221	8,428
Pension and other employee benefits	1,646	1,537
Occupancy expense of bank premises--net	2,470	2,400
Furniture and equipment expenses	1,406	1,438
Other	5,121	5,036
TOTAL OPERATING EXPENSE	46,225	39,601
INCOME BEFORE INCOME TAXES AND SECURITIES GAINS	3,662	2,682
Applicable income taxes (credits):		
Current	496	(71)
Deferred	(343)	31
	153	(40)
	Year Ended December 31	
	1978	1977
INCOME BEFORE SECURITIES GAINS	3,509	2,722
Net securities gains, less related income tax effect	-	197
NET INCOME	$ 3,509	$ 2,919
Income per share based on 3,066,714 shares in 1978 and 3,052,810 shares in 1977:		
Income before securities gains	$ 1.14	$ .89
Net income	$ 1.14	$ .96

WHITNEY HOLDING CORPORATION

	1978	1977
OPERATING INCOME:		
Interest and Fees on Loans	$ 71,631,753.99	$ 49,275,667.49
Interest and Dividends on Investments--		
U.S. Treasury Securities	26,445,623.32	28,380,430.37
U.S. Gov't Guaranteed Securities	1,038,827.35	1,768,099.70
Subdivisions	3,008,451.34	2,474,669.51
Other Securities	517,634.20	279,073.06
Interest on Federal Funds Sold	1,716,315.84	1,053,682.88
Other Operating Income	4,593,670.09	4,135,693.92
TOTAL	$108,952,276.13	$ 87,367,316.93
OPERATING EXPENSES:		
Salaries and Wages	$ 10,134,193.16	$ 8,999,223.60
Pension and Other Employee Benefits	2,961,830.81	2,555,528.81
Interest on Deposits	37,495,781.94	29,826,984.17
Interest on Federal Funds Purchased	13,361,255.51	8,279,548.24
Occupancy of Bank Premises, Net	2,234,383.32	2,257,123.55
Provision for Possible Loan Losses	1,966,726.49	1,491,869.23
Other Operating Expenses	9,566,862.16	8,339,479.43
TOTAL	$ 77,721,033.39	$ 61,749,757.03
Income before Income Taxes and Security Gains	$ 31,231,242.74	$ 25,617,559.90
Provision for Income Taxes	12,672,782.76	10,332,448.08
Income before Security Gains	$ 18,558,459.98	$ 15,285,111.82
Security Gains, net after tax effect	915.18	-
Gross--1978 $1,759.97		
Net Income	$ 18,559,375.16	$ 15,285,111.82
EARNINGS PER SHARE, Based on Weighted Average of Number of Shares Outstanding After Giving Retroactive Effect to the 2 for 1 Stock Split in 1978:		
Income before Security Gains	$ 8.67	$ 7.12
Net Income	$ 8.67	$ 7.12

CITYTRUST BANCORP, INC.

	Year ended December 31	
	1978	1977
Operating Income		
Interest on Loans	$36,194,673	$28,310,387
Interest and Dividends on Investments:		
U.S. Government Direct and Guaranteed	3,246,689	2,005,622
Federal Agencies	2,415,360	1,503,969
State and Municipalities	2,386,330	3,240,004
Other Securities	279,021	200,990
	8,327,600	6,950,585
Trust Income	3,212,779	3,008,326
Lease Income	951,057	1,108,510
Service Charges on Deposit Accounts	1,182,446	866,315
Other Operating Income	2,337,117	1,636,102
Total Operating Income	52,205,672	41,880,225
Operating Expenses		
Salaries and Wages	9,861,054	9,021,433
Employee Benefits	2,169,739	1,661,982
Interest on Deposits	18,742,707	15,230,930
Interest on Borrowed Money	2,657,859	1,706,322
Net Cost of Operating Premises	2,250,274	2,120,100
Machine Rental and Maintenance	1,152,019	1,003,461
Supply and Communication	2,059,268	1,799,935
Provision for Possible Credit Losses	3,000,000	3,000,000
Other Operating Expenses	5,248,158	4,047,069
Total Operating Expenses	47,141,078	39,591,232
Income before Taxes and Security Gains	5,064,594	2,288,993
Applicable Federal and State Taxes (Benefits)	1,060,000	(512,000)
Income before Security Gains	4,004,594	2,800,993
Security Gains, less Applicable Taxes of $4,401 in 1978 and $10,245 in 1977	3,803	11,250
Net Income	$ 4,008,397	$ 2,812,243
Income per Share		
On Outstanding Shares		
Income before Security Gains	$ 2.52	$ 1.76
Net Income	2.52	1.77
Assuming Full Dilution		
Income before Security Gains	2.44	1.71
Net Income	2.44	1.71

UNITED MICHIGAN CORPORATION

	Year Ended December 31	
	1978	1977
Operating Income:		
Interest and fees on loans	$40,312,263	$33,324,864
Interest on federal funds sold	1,316,003	1,137,242
Interest on investment securities:		
United States Treasury	3,583,241	3,591,497
Securities of other United States Government agencies and corporations	2,680,566	1,593,178
Obligations of states and political subdivisions	7,428,886	7,233,057
Other securities	2,031,986	1,433,813
Trust department income	1,282,156	1,239,758
Service charges on deposit accounts	1,816,512	1,549,966
Dividend income	629,862	713,726
Other income	2,243,460	2,205,415
Total Operating Income	$63,324,935	$54,022,516
Operating Expenses:		
Interest on deposits	$33,021,408	$27,420,591
Salaries	10,803,233	9,303,434
Pensions, profit sharing, and other employee benefits	2,322,916	1,984,324
Interest on federal funds purchased and other borrowed money	564,642	448,088
Net occupancy expenses	1,694,051	1,649,301
Provision for possible loan losses	1,122,545	1,036,600
Other operating expenses	6,449,480	5,780,490
Total Operating Expenses	$55,978,275	$47,622,828
Income Before Income Taxes And Securities Gains	$ 7,346,660	$ 6,399,688
Income Tax Credit	(310,000)	(674,000)
Income Before Securities Gains	$ 7,656,660	$ 7,073,688
Net Securities Gains, less related income tax effects of $15,799 in 1978 and $20,001 in 1977	17,116	21,667
Net Income	$ 7,673,776	$ 7,095,355
Per share of Common Stock outstanding--based on 1,386,000 shares:		
Income before securities gains	$ 5.52	$ 5.10
Net income	$ 5.54	$ 5.12

Interest and fees on loans

Of the survey reports, 89% utilized one caption to describe income earned on loans. This caption in 82% of the survey reports was titled "Interest and Fees on Loans." Of the 25 survey companies using more than one caption to describe interest and fees on loans, only one disclosed this detail in the notes to financial statements. As shown in Table 61 in Section G, 72% of the survey reports which set forth accounting policies discussed the income recognition method on loans.

Interest income on investment securities

Early adoption of revised Article 9 resulted in a signficant change in the number of captions used to disclose interest income on investment securities as exhibited in Table 38.

Table 38. Interest Income on Investment Securities

	Commercial Banks		Multi-bank Holding Companies		One-bank Holding Companies	
	78	77	78	77	78	77
Reports in which interest income on securities was disclosed in:						
Three or more captions corresponding to presentation on statement of condition	63%	86%	40%	92%	49%	89%
One caption only, no detail disclosed	8	9	2	3	6	5
Other presentation	29	5	58	5	45	6
	100%	100%	100%	100%	100%	100%
Reports in which specific disclosure was made of taxable and tax exempt income in the:						
Income statement	24%	*	45%	*	27%	*
Footnotes		*	2	*	3	*
Not disclosed	76	*	53	*	70	*
	100%		100%		100%	

*Information was not accumulated for 1977

Other interest income

The disclosure of other income components in excess of 1% of revenue required by revised Article 9 resulted in several captions included under other interest income as shown by Table 39.

Table 39. Other Interest Income*

	Commercial Banks	Multi-bank Holding Companies	One-bank Holding Companies
Income statement captions used in reports disclosing other interest income:			
Interest on federal funds sold	79%	68%	67%
Interest on time deposits with banks	49	46	56
Interest on short-term investments	2	5	11
Interest on money market investments	8	6	5
Other interest income	12	24	21

*Information was not accumulated for 1977.

Trading account income

Some banks act as dealers in securities. Income from these activities, if disclosed, was usually disclosed separately in the statement of income as trading account income. Those entities included in the "no disclosure made" classification may not have engaged in such activities, or the income from such activities may have been immaterial. Overall, 51% of the survey reports disclosed trading account income in the statement of income, while 62% of the survey reports disclosed trading account securities in the statement of condition.

Table 40. Trading Account Income—Income Statement Disclosure

	Commercial Banks		Multi-bank Holding Companies		One-bank Holding Companies	
	78	77	78	77	78	77
Reports disclosing trading account income:						
One caption	28%	28%	33%	33%	30%	28%
Two captions	10	7	15	16	37	19
Three or more captions			2	1		3
	38	35	50	50	67	50
No disclosure made	62	65	50	50	33	50
	100%	100%	100%	100%	100%	100%
Number of reports disclosing trading account income	26	*	61	*	42	*
Captions used in those reports disclosing trading account income:						
Trading account interest income	96%	*	97%	*	95%	*
Commissions, fees, markups on trading activities	4	*	13	*	19	*
Gain or loss on trading account securities	19	*	13	*	24	*

*Information was not accumulated for 1977.

Trust department income

Overall, 98% of the survey companies disclosed trust department income in the financial statements (same in 1977). In most cases the disclosure of the accounting method was made in the summary of accounting policies. Of the reports disclosing the accounting method, 94% used the cash basis of accounting (93% in 1977).

Table 41. Trust Department Income

	Commercial Banks		Multi-bank Holding Companies		One-bank Holding Companies	
	78	77	78	77	78	77
Reports which:						
Disclosed trust department income	92%	95%	99%	99%	100%	97%
Did not disclose trust department income	8	5	1	1		3
	100%	100%	100%	100%	100%	100%
Reports which disclosed trust department income and:						
Accounting method:						
Cash basis	45%	35%	38%	36%	49%	49%
Accrual			2	2	2	7
Modified			1		2	
	45	35	43	38	53	56
Accounting method not disclosed	55	65	57	62	47	46
	100%	100%	100%	100%	100%	100%
Number of reports disclosing trust department income	62	54	122	119	63	72

EXAMPLES Disclosure of interest and fees on loans in more than one caption (excerpt from income statement)

AMERICAN BANK AND TRUST CO. OF PA.

	Year Ended December 31, 1978	1977
Interest and fees on loans:		
Commercial	$51,871,000	$38,303,000
Mortgage	20,757,000	18,607,000
Consumer	19,455,000	15,719,000
	92,083,000	72,629,000

EQUIMARK CORPORATION

Loans:		
Commercial	46,273	32,120
Consumer	27,284	21,534
Mortgage	30,814	20,822
Construction	5,975	4,356
International	14,235	16,763
Total Loans	124,581	95,595

EXAMPLES Disclosure of interest on investment securities in more than one caption (excerpt from income statement)

BANKS OF IOWA, INC.

Interest on investment securities:		
Taxable interest income	$ 3,965,091	$ 4,857,988
Tax exempt interest income	7,141,416	6,421,627
Total interest on investment securities	$11,106,507	$11,279,615

FIRST BANKSHARES CORP. OF S.C.

Interest and dividends on investment securities:		
U.S. Treasury securities	$4,789,416	$4,939,300
Securities of other U.S. Government agencies and corporations	640,048	796,739
State, county, and municipal obligations	4,201,762	3,774,599
Other securities	83,872	74,786
Accretion of discount	69,795	83,656
Total income on investment securities	$9,784,893	$9,669,080

FIRST & MERCHANTS CORPORATION

Income on investment securities:		
U.S. Government	10,061	9,102
State and municipal (tax exempt)	7,593	8,339
Other	219	222
Total income on investment securities	17,873	17,663

EXAMPLES Disclosure of trading account income in financial statements

FIRST UNION BANCORPORATION

Interest on trading securities:		
U.S. Treasury	971	666
Other U.S. Government agencies and corporations	521	475
State and municipal	267	133
Total interest on trading securities	1,759	1,274
Interest on due from banks--time	3,037	3,675
Total interest and dividend revenue	222,540	164,664
Interest on time deposits in domestic offices:		
Excluding certificates of deposit $100,000 and over	37,298	34,431
Certificates of deposit $100,000 and over	32,853	16,429
Total interest on time deposits in domestic offices	70,151	50,860
Interest on time deposits in foreign offices	10,679	6,209
Interest on federal funds borrowed	29,779	18,590
Interest on securities sold subject to repurchase	21,564	10,788
Interest on other borrowed funds, excluding interest on long-term debt	2,138	712
Interest on long-term debt	3,731	3,048
Total interest expense	138,042	90,207
Net interest margin	84,498	74,457
Provision for losses on loans	5,602	5,279
Net interest margin after provision for losses on loans	78,896	69,178
Trust fees	13,192	12,469
Profits and commissions on trading securities	1,479	1,074

BANCO POPULAR DE PUERTO RICO

	Banco Popular de Puerto Rico	Inversiones Internacionales Incorporado and Subsidiaries	Popular Business Trust and Subsidiary	Combined balance Year ended December 31, 1978	1977
Interest Income:					
Interest and fees on loans	$ 80,900,659	$295,874	$12,800	$ 81,209,333	$56,735,684
Interest on money market investments	28,299,682	59,475	40,055	28,399,212	11,981,806
Interest on investment securities	40,258,987			40,258,987	27,553,670
Interest on trading account securities	281,535			281,535	309,815
	149,740,863	355,349	52,855	150,149,067	96,580,975
Less—Interest Expense:					
Deposits	49,884,012			49,884,012	34,789,911
Federal funds purchased and securities and mortgages sold under repurchase agreements	8,605,404			8,605,404	1,376,911
Long-term debt	1,564,942			1,564,942	481,048
Other	1,062,393		23,737	1,086,130	87,681
	61,116,751		23,737	61,140,488	36,735,256
Net interest income	88,624,112	355,349	29,118	89,008,579	59,845,719
Provision for loan losses	12,000,000	47,356		12,047,356	8,790,000
Net interest income after provision for loan losses	76,624,112	307,993	29,118	76,961,223	51,055,719
Service charges on deposit accounts	4,786,501			4,786,501	3,716,666
Trading account profit	331,055			331,055	522,401
Other operating income	6,130,683	431,393	31,744	6,593,820	4,459,735

Other income and other expense

Revised Article 9 of Regulation S-X requires disclosure of any item of other income or other expense which exceeds 1% of the sum of total interest income and other income.

Early adoption of revised Article 9 by some of the survey companies contributed to the number of captions used to present other income and other expense in the income statement as indicated in Tables 42 and 43. The different descriptive captions used for other income and other expense items in the income statements of the companies are presented in Tables 44 and 45.

Approximately 4% of the survey companies used one caption in the income statement for other income and other expense and disclosed the respective components in the notes to financial statements.

Table 42. Other Income*

	Commercial Banks	Multi-bank Holding Companies	One-bank Holding Companies
Reports in which the number of captions used in describing other income in the income statement was:			
One		8%	5%
Two	12%	6	3
Three	39	21	21
Four	34	43	30
Five	9	18	33
Six	5	4	6
Seven or more	1		2
	100%	100%	100%

*Information was not accumulated for 1977.

Table 43. Other Expense*

	Commercial Banks	Multi-bank Holding Companies	One-bank Holding Companies
Reports in which the number of captions used in describing other expense in the income statement was:			
One	2%	3%	3%
Two		2	2
Three	2	2	5
Four	22	23	17
Five	49	41	41
Six	16	17	22
Seven or more	9	12	10
	100%	100%	100%

*Information was not accumulated for 1977.

Table 44. Other Income Captions*

	Commercial Banks	Multi-bank Holding Companies	One-bank Holding Companies
Captions used to disclose other income:			
Trust income	90%	92%	94%
Service charge on deposits	81	81	75
Other service charge income	39	40	41
Trading account income	19	28	46
Foreign exchange	2	6	10
Other income	97	94	98
Other captions	16	33	43

*Information was not accumulated for 1977

Table 45. Other Expense Captions*

	Commercial Banks	Multi-bank Holding Companies	One-bank Holding Companies
Captions used to disclose other expense:			
Salaries and benefits	100%	96%	98%
Net occupancy of bank premises	97	97	97
Furniture and equipment expense	91	88	78
Net cost of operation of other real estate	5	10	13
Minority interest	3	6	
Other expense	99	98	100
Other captions	37	48	40

*Information was not accumulated for 1977.

EXAMPLES Disclosure of other income components in income statement

FIRST NATIONAL HOLDING CORP.

Other operating income		
Trust income	6,181	5,716
Merchant discounts on credit cards	10,371	8,926
Service charges on deposit accounts	7,477	5,680
Fees for data processing services	2,939	1,410
Mortgage banking fees	2,684	2,600
Other customer service charges	3,574	2,839
Insurance premiums and commissions	3,153	2,574
Other income	1,250	1,807
	37,629	31,552

BANCOKLAHOMA CORP.

Other Operating Revenue		
Trading Account Profits and Commissions	826,000	1,096,000
Direct Lease Financing	211,000	450,000
Trust Fees and Commissions	2,563,000	2,187,000
Other Revenue	2,283,000	1,812,000
Total Other Operating Revenue	5,883,000	5,545,000

FINANCIAL GENERAL BANKSHARES, INC.

Other income:		
Fiduciary activities	2,087,142	1,990,312
Other customer services	6,609,253	6,059,390
Equity in earnings of unconsolidated companies	899,842	789,970
Miscellaneous	2,021,273	1,747,484
Total Other Income	11,617,510	10,587,156

EXAMPLES Disclosure of other expense detail in income statement

FIRST NATIONAL HOLDING CORP.

Operating expense		
Salaries	42,943	35,745
Employee benefits	7,188	6,195
Equipment rentals, depreciation and maintenance	8,348	6,414
Net occupancy excluding real estate taxes	4,264	3,342
Supplies	3,396	2,753
Postage and freight	3,312	2,857
State and local taxes other than on income	3,087	2,951
Advertising and sales promotion	2,608	2,142
Net operating losses	2,509	1,436
Non-affiliated data processing	2,098	3,023
Other	12,280	10,891
	92,033	77,749
Net expense of real estate acquired or controlled	4,469	4,234
Income before income taxes and net security gains and (losses)	20,443	17,362

MANUFACTURERS BANK

Other Operating Expense		
Salaries and Other Compensation	5,925,836	4,849,487
Pensions and Other Employee Benefits	1,241,388	876,414
Total Staff Expense	7,167,224	5,725,901
Net Occupancy Expense	1,365,910	1,227,792
Furniture and Fixture Expense	456,804	430,881
Other	6,383,492	5,497,270
Total Other Operating Expense	15,373,430	12,881,844

FIRST VALLEY CORPORATION

Other Operating Expense		
Salaries and Wages	4,995,000	4,399,000
Pension and Other Employee Benefits	936,000	815,000
Net Occupancy	1,100,000	1,052,000
Equipment--Depreciation, Rentals and Maintenance	988,000	997,000
Real Estate Acquired, Net	460,000	405,000
Other Expense	4,266,000	3,977,000
Total Other Operating Expense	12,745,000	11,645,000

MULTIBANK FINANCIAL CORPORATION

Other Operating Expenses		
Salaries and employee benefits	20,190	19,002
Occupancy and equipment expense	7,590	7,468
Advertising	869	771
Postage	955	836
Printing and supplies	1,628	1,708
Telephone	901	863
Other operating expenses	5,974	5,234
Total operating expenses	38,107	35,882

MARSHALL & ILSLEY CORPORATION

Other Expense:		
Salaries and employee benefits	25,581,424	21,853,754
Net occupancy	3,006,162	2,782,412
Equipment	5,217,558	4,560,200
Other	11,072,167	9,291,756
Total other expense	44,877,311	38,488,122

FIRST NATIONAL BANK OF NEVADA

Other Expenses		
Salaries	18,207,000	16,811,000
Pensions and other employee benefits	3,995,000	3,688,000
Net occupancy expenses of bank premises	2,614,000	2,618,000
Furniture and equipment expenses	1,391,000	1,232,000
Advertising	1,093,000	821,000
Office supplies	1,277,000	1,143,000
Postage	1,411,000	1,138,000
Miscellaneous taxes	1,083,000	982,000
Data processing	2,595,000	2,255,000
Other expenses	3,745,000	3,456,000
Total other expenses	37,411,000	34,144,000

EXAMPLES Disclosure of other income and expense components in notes to financial statements

FIRST MARYLAND BANCORP

Other Income and Other Operating Expenses

The following tables summarize the more significant elements of these accounts (consolidated) (000 omitted):

	Years Ended December 31	
	1978	1977
Other income:		
Credit card fees	$3,934	$3,760
Gain on sale of fixed assets	1,739	499
International fees	874	667
Insurance commissions	720	403
Customer service fees	610	536
Safe deposit and other rents	381	348
Correspondent and other processing fees	261	297
Other*	1,231	793
	$9,750	$7,303
Other operating expenses:		
Postage and communications	$ 3,185	$ 2,542
Credit card operations	2,386	2,058
Examinations and professional fees	2,212	1,836
Printing and supplies	1,871	1,737
Advertising	1,081	848
Lending and collection	788	552
Transportation	653	533
Public relations	486	420
Other*	1,905	1,519
	$14,567	$12,045

*No single item included in this category exceeded one percent of total income.

FIRST NATIONAL BOSTON CORPORATION

Other Expenses:
Details of consolidated other expenses are as follows:

	Years Ended December 31	
	1978	1977
	(In Thousands)	
Professional, other services and regulatory examination fees	$17,171	$14,868
Communications	12,859	10,882
Travel, customer contact and advertising	11,392	10,166
Forms and supplies	6,819	6,300
Non-income taxes	6,140	4,749
Costs associated with other real estate owned	2,773	1,965
Insurance	2,408	1,557
Net translation and hedging costs	1,856	2,470
All other	17,112	11,475
	$78,530	$64,432

SOCIETY CORPORATION

Non-interest income and expense--$000's omitted

Non-interest income consists of the following:

	Year ended December 31, 1978	1977
Checking account fees	$ 4,256	$ 3,665
Trust income	1,878	1,669
Other (each item less than 1% of revenue)	7,385	7,379
	$13,519	$12,713

	Year ended December 31, 1978	1977
Salaries	$25,211	$22,577
Employee benefits	5,456	4,248
Taxes and assessments	4,331	3,825
Occupancy	6,428	6,055
Equipment	4,287	3,929
Office supplies	2,508	2,123
Advertising	2,274	1,569
Other (each item less than 1% of revenue)	13,352	11,563
	$63,847	$55,889

SOUTHEAST BANKING CORPORATION

Other Expenses
The following provides a summary of the components of other expenses exceeding one percent of total revenues (in thousands):

	Year Ended December 31, 1978	1977
Marketing	$4,279	$3,391
Communications	4,038	3,424
Shipping and postage	4,387	3,752
Stationery and printing	3,796	3,461

FIRST NATIONAL BANCORPORATION, INC.

Sundry Expense

Accounts included in sundry expense are summarized as follows:

	Year Ended December 31 1978 (In Thousands)	1977
Stationery, printing and supplies	$ 3,161	$ 2,609
Credit card association fees	2,341	2,133
Advertising and promotion	2,239	1,787
Postage, express, and hauling	1,970	1,743
Professional services	1,589	1,613
Telephone and telegraph	1,164	1,081
Fees for record keeping by mutual fund sponsor	526	1,068
Other--each account less than 1% of total revenues	7,348	6,444
Total	$20,338	$18,478

COMMONWEALTH BANKS, INC.

Supplementary Income Statement Information: The principal components of "Other income" and "Other expense" are:

	1978 (Thousands of dollars)	1977
Other income:		
Commissions on credit insurance	$ 1,974	$ 1,734
Other (includes no items in excess of 10% of net income)	1,930	1,984
Total other income	$ 3,904	$ 3,718
Other expense:		
Communications expense	$ 2,573	$ 2,179
Advertising and marketing	2,021	1,822
Credit card expense	1,547	1,401
Stationery and supplies	1,542	1,421
Professional services	1,240	1,034
State and local taxes other than on income*	804	784
Other (includes no items in excess of 10% of net income)	5,809	5,098
Total other expense	$15,536	$13,739

*Excluding real estate taxes of $463,000 in 1978 and $452,000 in 1977 (included in "Occupancy expense")

CITIZENS AND SOUTHERN NATIONAL BANK

Other Operating Income and Expense

Included in other operating income are the following for the years ended December 31:

	1978 (In Thousands)	1977
Computer services	$ 5,293	$ 3,879
Insurance premiums	4,699	4,462
Reimbursement of cost of advisory services to CSRI	2,042	2,785
Other	9,730	10,492
Total Other Operating Income	$21,764	$21,618

Included in other operating expense are the following for the years ended December 31:

	1978 (In Thousands)	1977
Fees for professional services	$ 7,541	$ 6,284
Postage and freight	4,823	4,372
Stationery and supplies	4,522	4,101
Communications	4,123	3,876
Advertising	3,217	2,355
Other	22,584	18,113
Total Other Operating Expense	$46,810	$39,101

Interest expense

Early adoption of revised Article 9 and its previously described requirements concerning separate disclosure of components of income statement items contributed to the substantial increase in the number of income statement captions used to disclose interest expense as indicated by Table 46. The Table also describes the location of the disclosure for each major category of interest expense including interest on certificates of deposit in excess of $100,000 which was a specific requirement of revised Article 9.

Table 46. Interest Expense

	Commercial Banks		Holding Companies	
	78	77	78	77
Reports disclosing interest expense in:				
One caption—interest expense or interest on deposits	2%	2%	1%	2%
Two captions—interest on deposits and interest on other borrowed money	10	19	7	22
Three or more captions	88	75	92	75
Other		4		1
	100%	100%	100%	100%
Reports disclosing interest expense on deposits in:				
One caption, no detail	39%	*	25%	*
One caption, detail in footnote	18	*	18	*
Income statement captions corresponding to captions in statement of condition	21	*	48	*
Other	22	*	9	*
	100%		100%	
Reports disclosing interest expense on certificates of deposit of more than $100,000 in the:				
Income statement	19%	21%	20%	9%
Footnotes	33	9	35	4
	52	30	55	13
Not disclosed	48	70	45	87
	100%	100%	100%	100%
Reports disclosing interest expense on short-term borrowings in:				
One caption, no detail	59%	*	60%	*
One caption, detail in footnote	2	*		*
Income statement captions corresponding to captions in statement of condition	32	*	31	*
Other	7	*	9	*
	100%		100%	
Number of survey companies disclosing interest on short-term borrowings	65	*	185	*
Reports disclosing interest expense on long-term debt in:				
One caption, no detail	49%	*	68%	*
One caption, detail in footnote	2	*		*
Income statement captions corresponding to captions in statement of condition	40	*	27	*
Other	9	*	5	*
	100%		100%	
Number of survey companies disclosing interest on long-term debt	53	*	175	*

*Information was not accumulated for 1977.

Salaries and employee benefits

Most companies reflected salaries in one caption and employee benefits in another. In most cases, there was a note to the financial statements discussing such employee benefits as retirement, pension, profit sharing and stock option plans.

Table 47. Salaries and Employee Benefits

	Commercial Banks		Holding Companies	
	78	77	78	77
Reports disclosing salaries and employee benefits in:				
One caption	28%	23%	39%	21%
Two captions	70	75	59	75
Three or more captions	2	2	2	4
	100%	100%	100%	100%

Taxes—Reconciliation between effective income tax rate and statutory rate

Approximately 96% (87% in 1977) of the holding companies included a reconciliation between the effective income tax rate and the statutory rate. Reconciliations between the two rates were included in 85% (65% in 1977) of the commercial banks surveyed.

Table 48. Reconciliation Between Effective Income Tax Rate and Statutory Rate

	Commercial Banks		Multi-bank Holding Companies		One-bank Holding Companies	
	78	77	78	77	78	77
Reports in which reconciliation between effective income tax rate and statutory rate was:						
Disclosed	85%	65%	94%	92%	98%	96%
Not disclosed	15	35	6	8	2	4
	100%	100%	100%	100%	100%	100%

Taxes on securities transactions

Survey reports generally reflected securities gains and losses, net of applicable income taxes, as a separate item in the statement of income. Approximately 85% in 1978 and 92% in 1977 of all survey reports made the disclosure of applicable income taxes in the statement of income.

Table 49. Taxes on Securities Transactions

	Commercial Banks		Multi-bank Holding Companies		One-bank Holding Companies	
	78	77	78	77	78	77
Reports disclosing income taxes applicable to securities gains or losses:						
Parenthetically in the income statement	70%	58%	69%	65%	59%	64%
In a separate caption on the income statement	6	18	6	8	14	9
In a note to the financial statements	11	10	9	19	11	18
No disclosure made	10	7	13	8	13	8
No securities transactions	3	7	3		3	1
	100%	100%	100%	100%	100%	100%

Extraordinary items

The nature of extraordinary items disclosed in survey company reports is presented in Table 50.

Table 50. Extraordinary Items*

	Commercial Banks	Multi-bank Holding Companies	One-bank Holding Companies
Reports disclosed extraordinary items of the following types:			
Cumulative effect of accounting changes	2%	2%	
Tax benefit of loss recognized	10	7	11%
Discontinued operations	2	1	10
Other		2	

*Information was not accumulated for 1977.

Earnings per share

Virtually all of the reports surveyed reported per share amounts for income before securities transactions and for net income. Some of these also reported net securities transactions per share. Seven reports in 1978 and six in 1977 (all commercial banks) made no disclosure of per share amounts.

Table 51. Earnings per Share

	Commercial Banks		Multi-bank Holding Companies		One-bank Holding Companies	
	78	77	78	77	78	77
Reports which presented per share amounts for:						
Income before securities transactions and net income	76%	74%	86%	80%	74%	78%
Income before securities transactions, securities transactions and net income	12	14	12	18	23	19
Net income only	3	2	2	2	3	3
	91	90	100	100	100	100
Per share data not disclosed	9	10				
	100%	100%	100%	100%	100%	100%

Foreign exchange gains/losses

The percent of reports disclosing data relating to foreign exchange operations and the resulting gains or losses from such operations is shown below. No determination was made to ascertain if those companies included in the non-disclosure percentages actually had foreign exchange operations and did not disclose the results of such operations due to immateriality, or if the companies did not participate in the foreign exchange markets and therefore would not be subject to the disclosure requirements. Companies disclosed foreign exchange operations in the summary of accounting policies or a separate note to the financial statements. Several companies combined their foreign exchange gains/losses data with their general disclosure of foreign operations, while others used a separate footnote.

Table 52. Disclosure of Foreign Exchange Gains/Losses

	Commercial Banks		Multi-bank Holding Companies		One-bank Holding Companies	
	78	77	78	77	78	77
Reports where foreign exchange gains/losses were:						
Disclosed	2%	4%	6%	11%	10%	19%
Not disclosed	98	96	94	89	90	81
	100%	100%	100%	100%	100%	100%

EXAMPLE Disclosure of details of interest expense in a separate note to financial statements

SOUTH CAROLINA NATIONAL CORPORATION

Deposits:

Deposits at December 31, 1978 and 1977, and the related expenses for these categories for the years ended December 31, 1978 and 1977 are as follows:

	1978				1977			
	The Bank		Consolidated		The Bank		Consolidated	
	Balance	Expense	Balance	Expense	Balance	Expense	Balance	Expense
Demand deposits	$ 624,596	$ -	$ 623,296	$ -	$582,870	$ -	$581,930	$ -
Savings deposits	199,492	9,754	199,342	9,746	185,108	8,751	184,958	8,743
CD's $100M and over	89,141	5,495	89,141	5,495	51,666	1,803	51,666	1,803
Other time deposits	134,311	9,073	134,311	9,073	133,787	9,000	133,787	9,000
Foreign deposits	5,200	277	5,200	277	1,000	12	1,000	12
	$1,052,740	$24,599	$1,051,290	$24,591	$954,431	$19,566	$953,341	$19,558

EXAMPLES Disclosure of interest expense on certificates of deposit over $100,000 (excerpt from income statement)

PAN NATIONAL GROUP, INC.

	1978	1977	Increase (Decrease)
Interest expense:			
Interest on deposits:			
Savings	6,233,811	7,596,770	(1,362,959)
Time, including approximately $9,883,000 and $6,747,000 on certificates of over $100,000 in 1978 and 1977, respectively	16,738,566	13,304,207	3,434,359
Interest on short-term borrowings	3,377,593	2,215,325	1,162,268
Interest on long-term debt	1,768,536	1,745,227	23,309
Total interest expense	28,118,506	24,861,529	3,256,977

NATIONAL BANK OF WASHINGTON, D.C.

Operating Expenses:		
Salaries and wages	11,598,199	10,640,650
Pensions and other employee benefits	2,877,635	2,347,785
Interest on:		
Time certificates of deposit of $100,000 or more	10,326,581	5,730,052
Deposits in foreign office	4,587,862	2,422,827
Other time deposits	7,677,297	8,407,954
Federal funds purchased and securities sold under agreements to repurchase	6,868,345	2,141,432
Occupancy expense of bank premises, net	3,098,779	3,295,368
Furniture and equipment rentals, depreciation and servicing	2,067,996	1,854,436
Provision for loan losses	1,900,000	1,235,000
Other operating expenses	4,510,972	4,550,358
Total Operating Expenses	55,513,666	42,625,862

NATIONAL COMMUNITY BANK OF NEW JERSEY

Operating Expenses		
Salaries and Employee Benefits	$11,395,457	$10,635,054
Interest on Time Certificates of Deposit of $100,000 and over	9,357,641	5,997,454
Interest on Other Deposits	23,324,488	22,227,585
Expense of Federal Funds Purchased and Securities Sold Under Agreements to Repurchase	1,455,927	464,492
Interest on Note Balances--U.S. Treasury	42,056	-0-
Interest on Borrowed Money	231,269	176,523
Occupancy Expense of Bank Premises, Net of Rental Income $164,231 in 1978 and $148,037 in 1977	2,087,535	2,016,536
Furniture and Equipment, Depreciation, Rental Costs, Servicing, Etc.	1,364,947	1,294,817
Provisions for Loan Losses	37,463	162,759
Other Operating Expenses	5,165,671	5,015,032
Total	$54,462,454	$47,990,252

FIRST NATIONAL BANK OF ALLENTOWN

Interest Expense:		
Interest on Deposits:		
Savings Deposits	14,282,838	13,273,254
Time Deposits-- Less than $100,000	12,669,527	10,660,270
Time Deposits-- $100,000 or More	5,482,527	3,108,372
Interest on Short-term Borrowings	2,393,540	355,345
Interest on Long-term Debt	949,039	179,357
Total Interest Expense	35,777,471	27,576,598

CENTRAL PENN NATIONAL CORP.

Interest on savings deposits	5,217,000	5,298,000
Interest on time deposits	7,987,000	8,001,000
Interest on certificates of deposit over $100,000	8,071,000	6,131,000
Interest on short-term borrowings	6,601,000	3,060,000
Interest on subordinated notes	792,000	800,000
Total interest expense	28,668,000	23,290,000

EXAMPLES Interest on certificates of deposit over $100,000 disclosed in a separate note to financial statements

BARNETT BANKS OF FLORIDA, INC.

DEPOSITS

	December 31, 1978 ($ Thousands)	1977
Demand Deposits		
Commercial and individual	$ 985,730	$ 909,784
U.S. Government	5,249	16,626
States and political subdivisions	53,778	46,862
Other banks	17,413	18,838
Other	47,636	40,555
Total Demand Deposits	1,109,806	1,032,665
Time Deposits		
Savings	797,718	794,803
Certificates of deposit (under $100,000)	517,795	417,256
Certificates of deposit ($100,000 and over)	155,715	89,653
Public funds	132,732	103,515
Total Time Deposits	1,603,960	1,405,227
Total Deposits	$2,713,766	$2,437,892

Interest expense on time deposits for 1978 and 1977 was:

	1978	1977
	($ Thousands)	
Savings	$40,446	$37,456
Certificates of deposit (under $100,000)	29,704	26,915
Certificates of deposit ($100,000 and over)	9,654	3,673
Public funds	8,566	4,681
Total	$88,370	$72,725

BANK OF THE COMMONWEALTH

Time Certificates of Deposit

The balances and maturity distribution of time certificates of deposit issued in amounts of $100,000 or more at December 31, 1978 and 1977 are as follows:

	1978	1977
3 months or less	$ 78,489	$ 94,130
3 to 6 months	41,380	22,472
6 to 12 months	18,721	5,150
Total	$138,590	$121,752
Interest expense on deposits of $100,000 or more	$ 8,784	$ 5,263

DETROITBANK CORPORATION

Deposits

Other time deposits on December 31, 1978 and 1977 includes certificates of deposit in denominations of $100,000 or more in the amount of $360,533,000 and $344,870,000, respectively. Interest on deposits includes the following:

	Year ended December 31,	
	1978	1977
Interest on savings and personal time deposits	$116,327,000	$105,448,000
Interest on certificates of deposit of $100,000 or more	22,365,000	9,030,000
Interest on other time deposits (other than certificates of deposit of $100,000 or more)	149,000	309,000
Interest on deposits in foreign offices	6,028,000	4,869,000
Total interest on deposits	$144,869,000	$119,656,000

REPUBLIC OF TEXAS CORPORATION

Time and Savings Deposits

At December 31, 1978 and 1977, time certificates of deposit in denominations of $100,000 or more aggregated approximately $1,558,897,000 and $1,010,085,000, respectively. For the years ended December 31, 1978 and 1977 interest expense related to such deposits was $92,877,000 and $49,839,000, respectively.

EXAMPLES Reconciliation between effective and statutory tax rates (excerpt from note to financial statements)

HARTFORD NATIONAL CORPORATION

The effective income tax rates in 1978 and 1977 for the consolidated group and the Bank were less than the federal statutory rate of 48%. The reasons for the differences between the effective rates and the federal statutory rate are as follows:

	1978				1977			
	Consolidated Group		Bank		Consolidated Group		Bank	
	Amount	% of Pretax Income	Amount	% of Pretax Income	Amount	% of Pretax Income	Amount	% of Pretax Income
	(000's omitted)							
Tax at statutory rate on income	$ 5,397	48.0	$ 8,176	48.0	$2,726	48.0	$6,408	48.0
Decrease due to tax exempt investment and loan income	(1,360)	(12.1)	(1,360)	(8.0)	(1,521)	(26.8)	(1,521)	(11.4)
Increase due to state taxes, net of federal tax benefits	441	3.9	680	4.0	306	5.4	587	4.4
Capital losses	360	3.2	120	.7	758	13.3	-	-
Miscellaneous items, each less than 5% of tax at the statutory rate	(237)	(2.1)	(237)	(1.4)	(105)	(1.8)	(105)	(0.8)
	$ 4,601	40.9	$ 7,379	43.3	$2,164	38.1	$5,369	40.2

FLORIDA NATIONAL BANKS OF FLORIDA, INC.

The following tables summarize the differences between the actual income tax expense (benefit) and the amounts computed by applying the U.S. Federal income tax rate of 48% and the Florida bank franchise tax rate of 5%:

	1978		1977	
	Amount	Percent Pre-tax Income	Amount	Percent of Pre-tax Income
Consolidated:				
Tax expense at statutory rate	$ 7,883,000	53%	$10,205,000	53%
Increase (reduction) in taxes resulting from:				
Tax exempt interest	(6,518,000)	(44)	(6,634,000)	(35)
Income tax benefits on state and other taxes	(511,000)	(3)	(657,000)	(3)
Provision for possible loan losses (in excess) less than realized deductions	(29,000)	-	36,000	-
Investment and other income tax credits--net	(644,000)	(5)	(257,000)	(1)
Other--net	(25,000)	-	263,000	1
Actual income tax expense	$ 156,000	1%	$ 2,956,000	15%
Parent Company:				
Tax expense at statutory rate	$16,453,000	53%	$14,311,000	53%
Reductions in taxes resulting from:				
Tax exempt dividends	(8,836,000)	(29)	(3,777,000)	53%
Equity in net earnings of subsidiaries	(7,763,000)	(25)	(9,583,000)	(36)
Income tax benefits on state and other taxes	(1,603,000)	(5)	(1,285,000)	(5)
Investment and other income tax credits	(244,000)	-	(88,000)	-
Actual income tax benefits	$(1,993,000)	(6)%	$ (422,000)	(2)%

TEXAS AMERICAN BANCSHARES INC.

The principal factors causing a variation from the statutory tax rate of 48% and the related tax effects are:

	1978	% of Pretax Income	1977	% of Pretax Income
Statutory tax on income before securities transactions	$10,828,000	48.0%	$8,233,000	48.0%
(Decrease) increase resulting from:				
Interest on tax exempt securities	(6,870,000)	(30.5)	(6,239,000)	(36.4)
Dividends received deduction on income from unconsolidated subsidiaries	(404,000)	(1.8)	(398,000)	(2.3)
Investment tax credit	(361,000)	(1.6)	(168,000)	(1.0)
Other	35,000	.2	18,000	.1
Provision for income taxes as reported	$ 3,228,000	14.3%	$1,446,000	8.4%

SOCIETY CORPORATION

A reconciliation of the amount computed by applying the federal statutory tax rate of 48% to income before income taxes and securities gains or losses and the provision for income taxes is as follows:

	1978		1977	
	Amount	% of Pretax Income	Amount	% of Pretax Income
Income tax at statutory rate	$10,193	48.0%	$7,798	48.0%
Increase (decrease) resulting from				
Tax exempt interest	(5,825)	(27.4)	(5,588)	(34.4)
Investment tax credit	(200)	(1.0)	(275)	(1.7)
Other (each item less than 5% of statutory amount)	(390)	(1.8)	(206)	(1.3)
Provision for income taxes	$ 3,778	17.8%	$1,729	10.6%

UNION BANCORP, INC.

The income tax expense in 1978 and 1977 resulted in effective tax rates of 36.4% and 31.8% respectively, of income before taxes. The principal reasons for the difference from the Federal statutory rate of 48% are as follows:

	1978 (In Thousands)	1977
Tax expense at Federal statutory rate	$19,206	$12,960
Increases (decreases) in taxes resulting from:		
State income taxes, net of Federal income tax benefit	2,698	1,817
Tax effect of interest on obligations of states and political subdivisions, exempt from Federal taxation	(9,381)	(8,376)
Other items, net	2,022	2,194
Actual tax expense	$14,545	$ 8,595

WELLS FARGO & COMPANY

A reconciliation of the statutory federal income tax rate to the effective tax rate follows:

	Year ended December 31, 1978	 1977 (Restated)
Parent		
Statutory federal income tax rate	48.0%	48.0%
Decrease in tax rate resulting from:		
Dividends from and undistributed earnings of subsidiaries	(51.1)	(51.8)
Other	(.3)	(.3)
Effective tax rate	(3.4)%	(4.1)%
Consolidated		
Statutory federal income tax rate	48.0%	48.0%
Increase (decrease) in tax rate resulting from:		
State and municipal bond income	(7.2)	(6.6)
State and local taxes on income, net of federal income tax beneft	5.5	5.6
Other	(1.9)	(1.4)
Effective tax rate	44.4%	45.6%
Finance Subsidiaries		
Statutory federal income tax rate	48.0%	48.0%
Increase (decrease) in tax rate resulting from:		
State and local taxes on income, net of federal income tax benefit	4.9	5.3
Amortization of investment tax credit	(5.2)	(4.7)
Other	1.3	.4
Effective tax rate	49.0%	49.0%

EXAMPLES Disclosure of foreign exchange gain or loss in notes to financial statements

SEAFIRST CORPORATION
(Excerpt from summary of accounting policies)

Foreign Currency Translation. Foreign currency gains or losses are reported in the consolidated statement of earnings in other income. Assets and liabilities are translated at year-end rates of exchange. Income and expense are translated at rates prevailing throughout the year. Unmatured forward contracts are revalued at currently quoted forward rates unless identified as a hedge contract, which have a discount or premium accrued to income over the term of the contract.

(Separate note to financial statements)

Foreign Currency Gains
Detail of foreign currency gains, included in other income in the consolidated statement of earnings was as follows (in thousands):

	1978	1977
Foreign currency and exchange gains	$4,175	$ 803
Translation gains	2,077	2,063
Total	$6,252	$2,866

BANKERS TRUST NEW YORK CORPORATION
(Excerpt from separate note to financial statements)

Included in foreign income are unrealized gains and losses, net of related hedge transactions, resulting from revaluing the local currency assets and liabilities of foreign branches and affiliates to U.S. dollars. After applicable income taxes, these gains amounted to $5.6 million and $4.8 million for the years ended December 31, 1978 and 1977, respectively.

UNITED CALIFORNIA BANK
(Separate note to financial statements)

Foreign Exchange

Foreign currency exchange gains, resulting primarily from gains on forward exchange contracts, included in fees, exchanges, and other service charges for 1978 and 1977 amounted to $1,916 thousand and $2,252 thousand, respectively.

EXAMPLES Disclosure of extraordinary items

BANCAL TRI-STATE CORPORATION
(Separate note to financial statements)

Extraordinary Item:

In 1977 the Company utilized $2,426,000 of foreign tax credit carryovers. Sufficient operating income to realize this tax credit was not available prior to 1977.

FLAGSHIP BANKS, INC.
(Excerpt from income tax footnote)

The charges in lieu of taxes for 1978 and 1977 result from the utilization of net operating loss carryforwards. The tax benefit produced by the utilization of these carryforwards has been reflected as an extraordinary item. The Company has approximately $10 million of federal tax losses that have not been recognized for financial reporting purposes and are available as a carryforward to reduce taxable income after 1978. For federal tax return purposes the loss carryforward amounts to approximately $12 million of which $3 million expires in 1981 and $9 million expires in 1982. The Company also has approximately $1 million of investment tax credit carryforwards which are available to offset future federal income taxes over the next seven years.

HIBERNIA CORPORATION
(Excerpt from income tax footnote)

For the year ended December 31, 1975, the Company had a tax net operating loss of which $803,000 remained available as a carryforward at December 31, 1977. The carryforward was realized for federal tax purposes during 1978, and accordingly is reported as an extraordinary item in the Consolidated Statement of Income. Investment tax credit carryforwards of $390,000 (generally expiring during years 1982-1985) are available to offset income taxes in future years.

EXAMPLES Disclosure of earnings per share

UNITED BANKS OF COLORADO, INC.
(Excerpt from summary of accounting policies)

Computation of Earnings Per Share:
Income before securities gains and net income per share are calculated on the weighted average number of shares outstanding during each year (3,951,262 during 1978 and 3,496,685 during 1977). If outstanding stock options had been exercised during the year, based upon the year-end or average market price, there would not have been any significant dilution of per share income.

The Company's outstanding Warrants expired November 1, 1977. As a result, 402,423 Warrants were exchanged for shares of the Company's common stock at $21.00 per share which brought the total number of Warrants exercised to 451,140 of the original 480,000 issued. Pro forma earnings per share figures assume that the additional shares, issued during 1977 at the time the outstanding Warrants were exercised, had been outstanding for the entire year. Pro forma average shares outstanding during 1977 were 3,815,231.

SECURITY NEW YORK STATE CORPORATION
(Separate note to financial statements)

Earnings and Dividends Per Share

Earnings per common share and common equivalent share (related to stock options) are computed by dividing applicable income by the weighted average number of shares outstanding during the year. The convertible preferred stock was not considered a common stock equivalent at date of issuance and, therefore, has been omitted from this computation. The earnings per common share and common equivalent share are based on 1,528,892 shares in 1978 and 1,528,003 shares in 1977, and after preferred stock dividend requirements of $1,454,424.

The earnings per common and common equivalent shares, assuming full conversion of preferred stock, were based on 2,382,631 shares in 1978. Conversion of the preferred stock is not assumed in 1977 due to the resulting antidilutive effect.

The Corporation is authorized to issue, in series, 1,000,000 shares of preferred stock. The Board of Directors establishes the rights of each series, including the dividend rate, voting privileges, conversion features and liquidation value.

The $6.00 cumulative, voting, covertible preferred stock (Series A) is redeemable at the option of the Corporation beginning 1980 at $100 per share, provided that the value of the common stock into which the preferred can be converted is at least $110. Each share is preferred over common stock as to dividends and amounts payable at liquidation ($100 plus accrued dividends) and is convertible, at the option of the holder, into 3 1/2 shares of common stock.

(Excerpts from income statements)

FINANCIAL GENERAL BANKSHARES, INC.

Per Share of Common and Class A Common:		
Income before security gains (losses)	$2.04	$1.58
Security gains (losses)	(0.01)	.05
Net income	$2.03	$1.63

FIRST SECURITY CORPORATION

Earnings per common share--assuming no dilution:		
Income before securities gains (losses) and gain in 1977 on sale of unconsolidated subsidiary	$2.81	$2.47
Securities gains (losses)	(.10)	.02
Gain in 1977 on sale of unconsolidated subsidiary		.26
Net income	2.71	2.75
Earnings per common share--assuming full dilution:		
Income before securities gains (losses) and gain in 1977 on sale of unconsolidated subsidiary	2.73	2.39
Securities gains (losses)	(.10)	.01
Gain in 1977 on sale of unconsolidated subsidiary		.25
Net income	2.63	2.65

CENTURY BANKS, INC.

Earnings per common share--primary:		
Income before net securities gains (losses) and extraordinary item	$1.07	$.71
Income before extraordinary item	1.04	.76
Net income	1.04	.81
Earnings per common share--fully diluted:		
Income before net securities gains (losses) and extraordinaty item	1.03	.69
Income before extraordinary item	1.00	.74
Net income	1.00	.79

SECTION E

Shareholders' Equity

Statement of changes in shareholders' equity—title and format

Substantially all reports included a statement describing the changes in the equity accounts. The title of the statement generally included the use of the word "changes" with 86% of the survey companies also using the wording "shareholders' or stockholders' equity." The statements of changes in equity accounts in the surveyed reports were similar in content, but differed in structure, i.e., continuous vertical, two separate statements, or side-by-side comparative. Most of the statements showed individual equity accounts for the current and preceding years. The examples in this section show various types of formats used by surveyed companies.

Table 53. Statement of Changes in Shareholders' Equity Format

	Commercial Banks		Multi-bank Holding Companies		One-bank Holding Companies	
	78	77	78	77	78	77
Reports having statement of changes in shareholders' equity in which changes were shown in:						
Individual equity accounts	79%	85%	92%	93%	89%	86%
Combined equity accounts	14	13	3	6	9	11
Individual equity accounts current year, combined equity accounts prior year	6		2	1	2	3
Other presentations	1	2	3			
	100%	100%	100%	100%	100%	100%

Entries to the statement of changes in shareholders' equity

Net income and cash dividends were separately stated in substantially all of the statements of changes in shareholders' equity. Other items appearing in the statements are presented in Table 54, with the respective percentages of occurrence found in the reports surveyed. The examples in this section exhibit the types of disclosure shown in the table.

Table 54. Entries to the Statement of Changes in Shareholders' Equity

	Commercial Banks		Multi-bank Holding Companies		One-bank Holding Companies	
	78	77	78	77	78	77
Percent of reports presenting statement of changes in shareholders' equity which contained separate items for:						
Issuance of additional capital stock:						
Merger transactions	5%		11%	11%	6%	5%
Sale of stock	18	5%	14	9	19	12
Stock option plans	25	11	35	33	43	34
Capital note transactions	8	7	7	6	13	10
Stock dividends	22	23	18	18	10	16
Stock splits	2	2	10	3	5	5
Treasury stock transactions	9	4	25	30	24	22
Transfers to or from retained earnings or undivided profits:						
To surplus	27	33	15	19	16	11
To specified reserves	5	4	2	3	5	3
To unspecified reserves	3	4	1			
To or from contingency portion of allowance for loan losses		9	2	2		5
Percent of reports presenting statement of changes in shareholders' equity which contained an analysis of the changes in outstanding capital stock	22	2	19	13	14	10

Stock dividends

The extent of stock dividend disclosure varied little between commercial banks and holding companies. However, the basis of recording the transactions varied, with the majority of commercial banks using par value and the majority of holding companies using market value.

Table 55. Stock Dividends

	Commercial Banks		Holding Companies	
	78	77	78	77
Reports with stock dividends which were:				
Recorded at par	69%	85%	23%	16%
Recorded at market	31	15	77	84
	100%	100%	100%	100%
Number of reports with stock dividends	13	13	26	36

In 1978 and 1977 five holding companies made distributions in the form of stock dividends which were recorded at par value. Each distribution was equal to or greater than 20% of the previously outstanding shares and, accordingly, was accounted for as a stock split-up (at par value) as prescribed by AICPA Accounting Research Bulletin No. 43.

Presentation of equity accounts in the statement of condition

Equity accounts set out in the statement of condition were usually preceded by a title designation. Both commercial banks and holding companies continue to prefer the use of the wording "shareholders' or stockholders' equity." Of the survey reports using "other presentations" as indicated in Table 56, the title "equity capital" was the most prevalent title designation.

Table 56. Equity Section Title

	Commercial Banks		Holding Companies	
	78	77	78	77
Reports in which:				
Equity (or capital) section was titled:				
Shareholders' or stockholders' equity	81%	72%	91%	88%
Capital accounts or capital funds	12	21	5	6
	93	93	96	94
Other presentations	7	7	4	6
	100%	100%	100%	100%

Table 57. Equity Account Captions

	Commercial Banks		Multi-bank Holding Companies		One-bank Holding Companies	
	78	77	78	77	78	77
Reports in which:						
Capital surplus was captioned:						
Capital surplus	22%	7%	46%	50%	49%	50%
Surplus	76	90	43	42	44	42
Additional paid-in capital or surplus			6	4	5	4
Other captions or no caption	2	3	5	4	2	4
	100%	100%	100%	100%	100%	100%
Retained earnings was captioned:						
Undivided profits	67%	83%	22%	19%	29%	30%
Retained earnings	31	16	78	81	70	69
Other captions or no caption	2	1			1	1
	100%	100%	100%	100%	100%	100%
Reports which included the caption:						
Reserve for contingencies	10%	7%	2%	1%		1%
Securities reserve				2		
Contingency portion of allowance for loan losses	3	3	2	1	2%	3
Combination of captions	2	2		1		
Reserve for marketable equity securities			2		2	
	15	12	6	5	4	4
No capital reserve disclosed	85	88	94	95	96	96
	100%	100%	100%	100%	100%	100%

EXAMPLES Statement of changes in shareholders' equity--individual equity accounts--current and preceding year

COMMONWEALTH BANKS, INC.

	Preferred Stock And Discount	Common Stock Shares	Common Stock Amount	Capital Surplus	Retained Earnings	Treasury Stock	Total
Year Ended December 31, 1977							
Balance at beginning of the year							
Fidelity American Bankshares, Inc. as previously reported	$4,229,920	2,515,858	$12,579,290	$17,503,049	$12,875,879	$(2,109,447)	$45,078,691
Adjustment for the cumulative effect on prior years for the capitalization of lease obligations					(390,483)		(390,483)
Fidelity American Bankshares, Inc. as restated	4,229,920	2,515,858	12,579,290	17,503,049	12,485,396	(2,109,447)	44,688,208
Central National Corporation		1,697,229	8,486,145	12,929,059	15,064,905		36,480,109
	4,229,920	4,213,087	21,065,435	30,432,108	27,550,301	(2,109,447)	81,168,317
Consolidation adjustment, on a pooling of interests basis, to reflect issuance of Commonwealth shares to the holders of Central common stock on the basis of 1.25 for 1		422,867	2,114,335	(2,114,335)			
Commonwealth Banks, Inc.	4,229,920	4,635,954	23,179,770	28,317,773	27,550,301	(2,109,447)	81,168,317
Net income					11,080,674		11,080,674
Sale of 200,000 shares of common stock, net of issuance costs		200,000	1,000,000	1,796,121			2,796,121
Stock dividend		103,965	519,825	650,030	(1,200,902)		(31,047)
Issuance of common stock under stock option plan		688	3,440	4,500			7,940
Purchase of treasury stock (57 shares of preferred and 267 shares of common)						(8,432)	(8,432)
Cash dividends declared by the parent companies prior to consolidation:							
Fidelity-preferred					(311,536)		(311,536)
Fidelity-common					(2,572,268)		(2,572,268)
Central-common					(1,935,756)		(1,935,756)
Balance at end of the year	4,229,920	4,940,607	24,703,035	30,768,424	32,610,513	(2,117,879)	90,194,013
Year Ended December 31, 1978							
Net income					12,517,810		12,517,810
Purchase of treasury stock (37,171 shares of common)						(611,625)	(611,625)
Acquisition of subsidiary		160,346	801,730	1,110,696		319,574	2,232,000
Issuance of common stock under stock option plans		3,689	18,445	(25,296)		279,334	272,483
Cash dividends declared by the parent companies prior to consolidation:							
Fidelity-preferred					(311,622)		(311,622)
Fidelity-common					(2,594,388)		(2,594,388)
Central-common					(2,025,055)		(2,025,055)
Retirement of treasury stock upon consolidation	(74,960)	(122,255)	(611,275)	(1,444,361)		2,130,596	
Cash in lieu of fractional shares upon consolidation					(22,556)		(22,556)
Stock dividend declared January 17, 1979		245,484	1,227,420	2,546,897	(3,830,188)		(55,871)
Balance at end of the year	$4,154,960	5,227,871	$26,139,355	$32,956,360	$36,344,514	$ -	$99,595,189

NORTHWESTERN FINANCIAL CORPORATION

1978	Common Stock (in thousands)	Surplus	Retained Earnings	Unrealized Investment Gains	Treasury Stock	Total
Balance at beginning of year	$5,708	$43,893	$32,978	$53	$(1,855)	$80,777
Net income	-	-	11,210	-	-	11,210
Cash dividends at $.42 per share	-	-	(2,172)	-	-	(2,172)
Transfer to surplus	-	10,000	(10,000)	-	-	-
Net decrease in unrealized investment gains	-	-	-	(28)	-	(28)
Sale of 1,100 shares of common stock held by insurance company subsidiary disposed of in 1978	-	-	-	(8)	18	10
Issuance of 30,000 shares of treasury stock at $9.25 per share under a management incentive contract	-	182	-	-	96	278
Balance at end of year	$5,708	$54,075	$32,016	$17	$(1,741)	$90,075
1977						
Balance at beginning of year	$5,708	$43,893	$25,574	$51	$(1,855)	$73,371
Net income	-	-	9,328	-	-	9,328
Cash dividends at $.38 per share	-	-	(1,924)	-	-	(1,924)
Net increase in unrealized investment gains	-	-	-	2	-	2
Balance at end of year	$5,708	$43,893	$32,978	$53	$(1,855)	$80,777

REPUBLIC NEW YORK CORPORATION

	1978	1977
Preferred Stock:		
Balance at beginning of year	$ 50,000,000	$ -
Issuance of 2,000,000 shares	-	50,000,000
Balance at end of year	$ 50,000,000	$ 50,000,000
Common Stock:		
Balance at beginning of year	$ 15,645,650	$ 15,645,650
Proceeds from stock options exercised (13,500 shares)	67,500	-
Issuance for 132,505 shares on conversion of 5-3/8% Convertible Notes due March 15, 1997	662,525	-
Balance at end of year	$ 16,375,675	$ 15,645,650
Surplus:		
Balance at beginning of year	$ 26,145,088	$ 28,315,088
Proceeds from stock options exercised	303,750	-
Cost of issuing preferred stock	-	(2,170,000)
Conversion of 5-3/8% Convertible Notes due March 15, 1997	4,505,022	-
Balance at end of year	$ 30,953,860	$ 26,145,088
Undivided Profits:		
Balance at beginning of year	$ 80,296,358	$ 64,764,900
Net income	26,629,445	19,522,394
Dividends declared on common stock	(4,863,099)	(3,129,130)
Dividends declared on preferred stock	(4,250,000)	(861,806)
Balance at end of year	$ 97,812,704	$ 80,296,358
Total Stockholders' Equity:		
Balance at beginning of year	$172,087,096	$108,725,638
Net changes during year	23,055,143	63,361,458
Balance at end of year	$195,142,239	$172,087,096

EXAMPLES Statement of changes in shareholders' equity—combined equity accounts both years

NORTHERN TRUST CORPORATION

	1978 (In Thousands)	1977
Balance at Beginning of Year	$248,032	$231,075
Net Income	26,098	25,557
Cash Dividends Declared	(9,032)	(8,600)
Treasury Stock Acquired	(7,302)	-
Transfer to (from):		
Capital Surplus	-	27,000
Retained Earnings	-	(27,000)
Balance at End of Year	$257,796	$248,032

LINCOLN FIRST BANKS INC.

	Year Ended December 31,	
	1978 (In Thousands)	1977 Restated
Shareholders' equity as of January 1 as originally reported		$150,673
Cumulative net effect of retroactive application of FASB No. 13 to leased premises and equipment		(1,075)
Shareholders' equity as of January 1 as restated	$154,854	149,598
Add Net Income	16,678	13,411
Deduct cash dividends:		
Preferred shares--$1.05 per share	2,107	2,107
Common shares--$1.88 per share	6,048	6,048
	8,155	8,155
Shareholders' equity as of December 31	$163,377	$154,854

BANCOKLAHOMA CORP.

	Year Ended December 31,	
	1978	1977
Balance, January 1	$57,115,000	54,500,000
Additions		
Net Income	5,046,000	4,734,000
Distribution of 5,533 Shares of Treasury Stock Under Executive Compensation Plan in 1977	-	92,000
Change in Net Unrealized Loss on Equity Securities	-	11,000
	5,046,000	4,837,000
Deductions		
Cash Dividends Per Share ($1.03 in 1978 and $1.00 in 1977)	2,279,000	2,208,000
Cost of Treasury Stock--863 Shares in 1977	-	14,000
	2,279,000	2,222,000
Balance, December 31	$59,882,000	57,115,000

FIRST NATIONAL BANK OF ARIZONA

	Year Ended December 31	
	1978	1977
Balance at beginning of year	$122,928,000	$111,933,000
Net income	21,007,000	16,134,000
Cash dividends declared ($3.79 and $2.80 per share respectively)	(6,955,000)	(5,139,000)
Balance at end of year	$136,980,000	$122,928,000

GARDEN STATE NATIONAL BANK

Statement of Changes in Capital Funds
Years ended December 31, 1978 and 1977
(Thousands of Dollars)

	1978	1977
Balance at beginning of year	$44,968	$41,810
Net income	7,785	5,647
Cash distribution in lieu of fractional shares	-	(14)
Cash dividends declared:		
Class A--$1.25 per share	(1,050)	(1,037)
Class B--$1.25 per share	(971)	(960)
Excess of purchase price over fair value of assets acquired	-	(478)
Balance at end of year	$50,732	$44,968

FIRST NATIONAL BANK OF OREGON

	Year Ended December 31, 1978	Year Ended December 31, 1977
Balance January 1	$198,667,000	$183,327,000
Reduction in undivided profits due to change in accounting for leases	(151,000)	
Net income	28,333,000	23,841,000
Cash dividends declared--$1.94 per share in 1978 and $1.60 per share in 1977	(10,308,000)	(8,501,000)
Balance December 31	$216,541,000	$198,667,000

In January 1978, $25,000,000 was transferred from undivided profits to surplus.

EXAMPLE Statement of changes in shareholders' equity--individual equity accounts current year, combined equity accounts preceding year

NORTHERN STATES BANCORPORATION

Year Ended December 31	Common Stock	Capital Surplus	Retained Earnings	1978 Total	1977 Total
Balance at beginning of period	$13,173	$24,821	$ 9,319	$47,313	$46,211
Net income for the period			3,092	3,092	2,491
Cash dividends declared by Northern States--					
On common stock ($.40 per share)			(1,055)	(1,055)	(1,047)
On $8.25 preferred stock			(392)	(392)	(392)
On 6-1/2% preferred stock			(40)	(40)	(40)
Exercise of stock options for 6,100 shares in 1978 and 17,000 shares in 1977	31	3		34	90
Balance at end of period	$13,204	$24,824	$10,924	$48,952	$47,313

EXAMPLES Presentation of equity accounts in the statement of condition

FIRST NATIONAL HOLDING CORP.

Shareholders' equity

	1978	1977		
Preferred stock:				
Par value	$ 25	$ 25		
Shares authorized	1,000,000	1,000,000		
Shares issued and outstanding	None	None	-	-
Common stock:				
Par value	$ 5	$ 5		
Shares authorized	10,000,000	6,000,000		
Shares issued and outstanding	6,942,680	4,067,391	34,714	20,336
Capital surplus			41,527	42,561
Retained earnings			47,362	42,550
Reserve for contingencies and securities			20,950	17,000
			144,553	122,447
			$3,010,712	$2,491,546

NORTHWESTERN FINANCIAL CORPORATION

Shareholders' equity:		
Common stock, $1 par value; 15,000,000 shares authorized and 5,708,064 shares issued	$ 5,708	$ 5,708
Surplus	54,075	43,893
Retained earnings	32,016	32,978
Unrealized investment gains	17	53
	91,816	82,632
Less cost of treasury stock; 548,057 shares in 1978 and 579,157 shares in 1977	(1,741)	(1,855)
Total shareholders' equity	90,075	80,777
	$1,540,904	$1,411,413

NORTHEAST BANCORP. INC.

Capital:			
Preferred Stock, without par value:			
Authorized--500,000 shares			
Outstanding--None			
Common Stock, $5 par value:			
Authorized--3,000,000 shares			
Outstanding--2,334,607--1978 (2,122,370--1977)	11,673,035	10,611,850	+ 1,061,185
Surplus	34,067,614	30,353,466	+ 3,714,148
Retained Earnings	27,538,608	27,383,389	+ 155,219
Supplemental Reserves	648,741	648,741	-
Net Unrealized Loss on Equity Securities	(215,276)	-	- 215,276
Total Capital	73,712,722	68,997,446	+ 4,715,276
Total Liabilities and Capital	$1,076,187,846	$937,353,247	+$138,834,599

CROCKER NATIONAL CORPORATION

Shareholders' equity:		
Preferred stock, no par value, 4,000,000 shares authorized:		
$3 cumulative convertible preferred stock, stated at $50 per share, 1,200,000 shares authorized, 911,700 and 908,864 shares outstanding at December 31, 1977 and 1978, respectively	$ 45,585	$ 45,443
$2.1875 cumulative convertible preferred stock, stated at $25 per share, 2,000,000 shares authorized and outstanding	-	50,000
Common stock, $10 par value	119,872	120,258
Paid in surplus	118,625	116,768
Retained earnings	196,768	241,650
	480,850	574,119
Less treasury/stock, at cost	5,982	5,510
Total shareholders' equity	$474,868	$568,609

	Number of Shares	
	December 31, 1977	December 31, 1978
Authorized	20,000,000	20,000,000
Issued	11,987,190	12,025,828
In treasury	(233,322)	(214,894)
Outstanding	11,753,868	11,810,934

EXAMPLES Disclosure of stock dividends (excerpt from note to financial statements)

U.S. BANCORP

On December 22, 1978, the Board of Directors approved a 20% stock dividend payable May 30, 1979, to shareholders of record April 30, 1979, subject to shareholder approval, at their April 17, 1979, annual meeting, of an increase to 20,000,000 in the number of authorized shares. The average number of shares outstanding, per share amounts, the number of shares under option and option prices will be adjusted retroactively to reflect the increased number of shares to be outstanding after the stock dividend is consumated.

SOUTH CAROLINA NATIONAL CORPORATION

On November 20, 1978, the Board of Directors of the Company declared a 10% stock dividend payable on January 2, 1979, to the stockholders of record on December 15, 1978. At December 31, 1978, the Company has given effect to the common stock dividend by capitalizing $6,616,000 of undivided profits, representing the fair value on the declaration date of 352,861 shares of common stock to be issued. In addition, cash to be paid in lieu of fractional shares ($33,000) has been accrued and charged to undivided profits. Earnings per share and dividends per share for the years 1978 and 1977 have been adjusted to reflect the additional shares to be issued.

FIRST NATIONAL BANK OF AKRON

The Board of Directors on November 9, 1978 approved a resolution recommending an increase in the authorized shares of common stock of the Bank to provide for a 4% stock dividend. Subject to the approval of the Comptroller of the Currency and shareholders, the shares will be distributed to shareholders of record at April 27, 1979.

SECTION F

Statement of Changes in Financial Position

Statement of changes in financial position

The predominant title used to describe the statement was—Statement of Changes in Financial Position (97%). All of the 1978 reports surveyed included the statement. As was the case in 1977, the majority of the reports used the self-balancing format with most indicating a separate total for funds provided by operations.

Table 58. Statement of Changes in Financial Position

	Commercial Banks		Multi-bank Holding Companies		One-bank Holding Companies	
	78	77	78	77	78	77
Reports where statement of changes in financial position was:						
Presented	100%	93%	100%	100%	100%	100%
Not presented		7				
	100%	100%	100%	100%	100%	100%
Reports presenting a statement of changes in financial position which was:						
Self-balancing	92%	92%	98%	97%	95%	99%
Not self-balancing	8	8	2	3	5	1
	100%	100%	100%	100%	100%	100%

EXAMPLE Funds statement format—self balancing

CHASE MANHATTAN CORPORATION

	Year Ended December 31	
	1978	1977
	(In Thousands)	
Funds Provided		
Net Income	$ 195,065	$ 127,009
Add Noncash Items Included in Net Income:		
Depreciation and Amortization of Premises and Equipment	34,779	29,627
Provision for Possible Losses	169,000	215,330
Deferred Income Taxes	84,626	25,713
Funds Provided from Operations	483,470	397,679
Issuance of Preferred Stock	150,000	130,000
Issuance of Long-Term Notes and Debentures	244,303	-
Increases in:		
Deposits	5,037,562	5,899,977
Federal Funds Purchased and Securities Sold Under Repurchase Agreements	559,363	1,041,105
Commercial Paper	704,385	-
Other Borrowed Money	407,370	205,994
Accounts Payable, Accrued Expenses and Other Liabilities	360,016	171,192
Decreases in:		
Investment Securities	183,120	-
Trading Account Securities	140,455	184,312
Federal Funds Sold and Securities Purchased Under Resale Agreements	-	25,735
Other--Net	63,644	2,350
Total Funds Provided	$8,333,688	$8,058,344

	Year Ended December 31	
	1978	1977
Funds Used		
Cash Dividends Paid:		
Common Stock	$ 70,530	$ 70,530
Preferred Stock	15,631	3,797
Convertible Capital Notes and Subordinated Debentures Exchanged for Preferred Stock Issued	150,000	-
Redemption of Floating Rate Notes	14,834	14,414
Retirement of Capital Notes (4.60% Due 1990)	2,687	5,812
Increases in:		
Cash and Due from Banks	1,906,366	1,812,447
Interest-Bearing Deposits Placed with Banks	1,841,625	870,417
Investment Securities	-	258,959
Federal Funds Sold and Securities Purchased Under Resale Agreements	48,045	-
Loans and Lease Financings, Before Charge-Offs	3,693,102	4,709,728
Premises and Equipment	43,230	57,457
Accrued Interest Receivable	252,481	102,103
Other Assets	295,157	50,312
Decreases in:		
Commercial Paper	-	102,368
Total Funds Used	$8,333,688	$8,058,344

EXAMPLE Funds statement format--not self balancing

MIDLANTIC BANKS INC.

	Year Ended December 31	
	1978	1977
Funds were provided by:		
Income before extraordinary item	$ 14,893,000	$ 10,419,000
Add (deduct) items not affecting funds in the period:		
Provision for loan losses	8,609,000	7,869,000
Depreciation and amortization of banking premises	2,728,000	2,543,000
Amortization of investment security premiums--net of accretion	428,000	508,000
Deferred federal income taxes	(1,428,000)	1,139,000
Total funds provided by operations exclusive of extraordinary item	25,230,000	22,478,000
Extraordinary item	375,000	-
Increase in total deposits	89,153,000	208,144,000
Increase in short-term borrowings	68,456,000	76,064,000
Decrease (increase) in interest-bearing deposits with banks	57,224,000	(67,290,000)
Increase in accrued taxes and other liabilities	22,381,000	3,065,000
	262,819,000	242,461,000
Funds were used for:		
Increase in loans, net of unearned income	186,865,000	162,183,000
Increase (decrease) in federal funds sold	7,650,000	(45,950,000)
Increase in investment securities	11,245,000	37,881,000
Additions to banking premises and equipment--net	3,026,000	2,316,000
Cash dividends on common stock	5,627,000	5,410,000
Cash dividends on preferred stock	1,556,000	1,556,000
Increase in other assets--net	26,173,000	16,010,000
	242,142,000	179,406,000
Increase in cash and due from banks	$ 20,677,000	$ 63,055,000

SECTION G

Notes to Financial Statements

Table 59 reveals that the subject matter of notes to the financial statements generally did not change from 1977 to 1978. However, notable increases did take place in the number of companies disclosing foreign operations and related party transactions. These increased disclosures were apparently the result of early application of Article 9 of Regulation S-X which is discussed further in Section A. The number of disclosures relating to lease financing also increased indicating that leasing continues to become a more prominent activity in the banking industry. Accounting changes are also being disclosed more often primarily as a result of changes resulting from adoption of FASB No. 13 "Accounting for Leases."

The data in this table must be qualified. First, no consideration has been given to whether the general categories or specific areas are applicable to a particular reporting company. For example, many of the companies might not have a stock option plan. Therefore, a low percentage relating to stock option plans should not be construed to indicate that such plans are not being disclosed properly. Second, the items listed in the tables should not be considered all-inclusive.

Table 59. Subject Matter of Notes to Financial Statements

	Commercial Banks		Multi-bank Holding Companies		One-bank Holding Companies	
	78	77	78	77	78	77
Percent of reports containing notes to financial statements including a note discussing:						
Accounting changes	13%	11%	11%	7%	14%	11%
Acquisitions	21	12	42	53	14	20
Allowance for loan losses	100	100	100	100	100	99
Asset valuation-premises	96	100	99	96	97	86
Asset valuation-securities	100	100	100	98	98	100
Capital notes or debentures	69	69	72	73	81	73
Commitments	91	87	91	86	92	95
Consolidation principles	65	58	99	96	100	100
Contingent liabilities	70	58	79	68	84	78
Divestitures	8	4	7	6	14	18
Earnings per share	46	40	74	69	73	65
Foreign operations	28	18	32	16	46	30
Income taxes	100	100	100	99	100	99
Intangible assets	13	5	42	34	20	19
Interim financial data	47	33	94	93	92	92
Investment in subsidiaries	15	11	32	38	29	35
Lease financing	37	26	50	47	57	46
Litigation	47	39	56	52	65	72
Loan charge off policy	5	5	14	8	16	7
Mortgages or notes payable	31	31	84	84	76	74
Non-performing loans	52	42	55	64	71	77
Other employee benefits	15	46	25	55	33	67
Other real estate	42	33	44	57	65	70
Pledged assets	100	96	94	98	97	97
Related party transactions	56	39	50	43	52	39
Reorganization	6	2	7	1	3	
Retirement plan	97	96	100	100	100	99
Segments	8	12	15	25	24	24
Stock data	36	27	55	46	44	35
Stock option plan	30	13	63	61	73	60
Subsequent events	5	2	3	8	8	4
Trust department	49	35	42	37	57	51

The remainder of this section includes examples and tables which describe the disclosures found in the accounting policies footnote and other footnotes which are not readily associated with financial statement items or captions. Footnotes not included in this section can be found in other sections of this survey based on their subject matter.

ACCOUNTING POLICIES FOOTNOTE

Requirements for disclosure of accounting policies

Accounting Principles Board Opinion No. 22, entitled "Disclosure of Accounting Policies", and Regulation S-X require that disclosure of significant accounting policies of a reporting entity accompany that entity's financial statements. Disclosure of accounting policies was made by all companies included in the survey. The accounting policies disclosures were generally included in a separate summary or note to financial statements.

Items covered in accounting policies disclosures

Table 60 sets forth general categories covered in accounting policies disclosures and Table 61 sets forth specific areas within those general categories. The data in these two tables must be qualified. First, no consideration has been given to whether the general categories or specific areas are applicable to a particular reporting company. Second, the items listed in the tables should not be considered all-inclusive.

The content of accounting policy disclosures did not differ significantly from the prior year.

Table 60. General Categories Covered in Accounting Policies Disclosures

	Commercial Banks		Multi-bank Holding Companies		One-bank Holding Companies		Total	
	78	77	78	77	78	77	78	77
Percent of reports containing accounting policies which disclosed separately policies related to:								
Consolidations	65%	58%	99%	98%	100%	100%	90%	90%
Foreign branches and subsidiaries	9	9	16	8	32	11	18	9
Investment securities	94	95	99	96	98	99	98	96
Trading securities	45	44	59	61	71	65	59	58
Loans	79	66	88	86	83	81	84	80
Bank premises and equipment	91	91	96	91	97	93	95	92
Allowance for loan losses	90	89	98	93	98	96	96	93
Other real estate	31	26	37	45	57	58	41	45
Income taxes	90	82	96	93	95	95	94	91
Pension plan	66	66	76	68	67	69	71	68
Foreign exchange	13	15	15	19	32	34	19	23
Method of recognizing income	45	31	42	43	54	57	46	45
Lease financing	34	26	44	48	46	43	42	41
Earnings per share	31	40	52	69	54	65	47	61
Goodwill	10	9	41	16	14	19	26	15

Table 61. Specific Areas Covered in Accounting Policies Disclosures

	Commercial Banks		Multi-bank Holding Companies		One-bank Holding Companies		Total	
	78	77	78	77	78	77	78	77
Percent of reports setting forth accounting policies which covered:								
Consolidations:								
Consolidation policy including treatment of intercompany accounts and transactions	60%	55%	95%	92%	97%	97%	86%	85%
Accounting for investments in unconsolidated subsidiaries	6	9	12	18	13	16	11	16
Accounting for less than majority-owned affiliates	12	6	28	23	32	20	25	19
Foreign branches and subsidiaries:								
Recognition of income	3	6	7	5	22	8	10	6
Translation of foreign currencies	6	7	14	8	27	10	15	8
Investment securities:								
Carrying basis	94	93	99	97	97	99	97	96
Method of premium amortization and discount accretion	33	36	42	37	32	35	37	36
Method of determining cost of securities sold	42	33	71	40	75	41	64	39
Trading account securities:								
Carrying basis	45	44	59	59	71	65	59	57
Method of determining cost of securities sold	12	2	13	9	21	10	15	8
Method of accounting for gains or losses on sales	18	26	27	33	25	32	24	31
Method of accounting for income earned whle securities are held	3	16	13	21	5	16	10	19
Loans:								
Method of recognizing income	73	56	72	79	68	80	72	74
Policy for placing loans on nonaccrual status	27	29	42	55	46	58	39	50
Bank premises and equipment:								
Carrying basis	90	91	95	90	92	91	93	90
Depreciation method(s)	90	89	96	92	95	95	94	92
Allowance for loan losses:								
Method of computing provision charged to operations	90	87	94	93	95	93	93	92
Loan charge off policy	3	6	13	9	14	11	11	9
Other real estate:								
Carrying basis	31	24	37	43	52	57	39	43
Method of accounting for gains or losses on sales	9	4	10	12	13	11	10	10
Income taxes:								
Accounting for deferred taxes	81	76	91	88	86	89	87	86
Accounting for investment tax credit	84	76	93	92	89	91	89	88
Pension plans:								
Method of computing pension expense	25	36	26	51	19	49	24	47
Method of funding costs accrued	60	53	72	60	54	62	64	59
Foreign exchange:								
Basis of translation	12		14	16	29	15	17	12
Accounting for gain or loss	10	11	15	15	27	24	17	17
Method of recognizing income:								
Trust department income	45	33	40	39	51	51	44	41
Other types of income	10	6	15	11	24	19	16	12

OTHER FOOTNOTES

Commitments (other than leases) and contingent liabilities

Federal bank regulatory authorities require the disclosure of the amount, if material, of standby letters of credit at the balance sheet date for reports filed with the agencies. Of the survey companies which disclosed the amount of standby letters of credit, the most frequently used footnote caption was "Commitments and Contingent Liabilities." Other disclosures frequently noted within this footnote were pending litigation arising in the normal course of business and a statement as to various other commitments and contingent liabilities. All of the reports contained disclosures covering commitments (other than leases) or contingent liabilities.

Table 62. Commitment and Contingency Disclosure

	Commercial Banks		Multi-bank Holding Companies		One-bank Holding Companies	
	78	77	78	77	78	77
Percentage of reports in which the following were disclosed:						
Amounts of:						
Standby letters of credit	79%	79%	77%	68%	92%	88%
Commercial letters of credit	3	5	10	10	11	9
Loan commitments	8	7	6	7	6	7
Other commitments	21	*	21	*	30	*
Other contingent liabilities	18	*	15	*	30	*

*Information was not accumulated for 1977.

Deferred income taxes

Most of the 1978 reports surveyed included disclosure of deferred taxes. There was a notable increase in the number of commercial banks which disclosed deferred taxes in 1978 as compared to 1977. Table 63 shows that the most common method of disclosure was in the statement of changes in financial position and the notes to the financial statements.

As in previous surveys only a small percentage of reports included disclosure of future reductions in deferred taxes (2% of the commercial banks and 9% of the multi-bank and one-bank holding companies for 1978).

Table 63. Deferred Income Taxes

	Commercial Banks		Multi-bank Holding Companies		One-bank Holding Companies	
	78	77	78	77	78	77
Reports in which deferred taxes were disclosed in the:						
Notes to financial statements	31%	44%	14%	19%	24%	29%
Statement of changes in financial position and notes to financial statements	64	39	81	72	71	58
Statement of condition and notes to financial statements			2	3		5
Statement of income and notes to financial statements		4	1	6		7
Statements of condition, income and notes to financial statements	2	4	2		3	1
Deferred taxes not disclosed	3	10			2	
	100%	100%	100%	100%	100%	100%

Tax loss carrybacks and other tax benefits

The Internal Revenue Code permits a net operating loss of a bank incurred in any taxable year subsequent to 1975 to be carried back and applied against its taxable income for the immediately preceding ten taxable years. Accordingly, approximately 2% (5% in 1977) of the survey companies disclosed utilization of this ten year carryback benefit. Including the net tax credits that may have resulted from the above, approximately 8% (21% in 1977) of the survey companies reported net income tax credits.

Intercorporate tax allocation

Although several methods of intercorporate tax allocation are acceptable, during 1978 the bank regulatory agencies issued notice that the cash transfer to a holding company in payment of a bank's share of the consolidated income tax liability should not exceed the amount of tax the bank would have paid had a tax return been filed on a separate entity basis. Approximately 16% of the companies surveyed disclosed their method of intercorporate tax allocation.

Disclosure of dividend limitation because of regulatory requirements

Restrictions on undivided profits or retained earnings which related to regulatory requirements limiting the payment of dividends by banks were disclosed by 18% of the commercial bank (1977—26%) and 54% of the holding company (1977—38%) reports analyzed. In total, 112 reports (1977—73) contained such disclosure. This increase in disclosure was apparently due to the reference in revised Article 9 of Regulation S-X to a footnote disclosure, required by Article 3, of the most restrictive limitation on the availability of undivided profits or retained earnings for dividends. The SEC recently issued Staff Accounting Bulletin No. 26 which clarifies the reporting requirement and states that the SEC staff expects disclosure in a bank holding company's financial statements (parent company and consolidated) of the amount of dividends which can be paid by subsidiary banks to the parent company without securing regulatory approval.

Goodwill charged to undivided profits

Regulatory authorities generally require banks to write off goodwill to undivided profits which is not in accordance with generally accepted accounting principles. However, holding companies are allowed to record goodwill as long as it is not reflected in the individual financial statements of subsidiary banks.

Nine percent of the commercial banks included in the survey indicated that they had charged goodwill to undivided profits. Two-thirds of the commercial banks making such disclosures also disclosed the amounts while one-third indicated only that the amounts were not material. One holding company disclosed that it had a subsidiary bank that had written off goodwill with no indication as to the amounts involved.

Interim financial data

Certain banks and most bank holding companies are required to include an annual report footnote summarizing quarterly operating results for the two latest years. This information generally is marked "unaudited," although certain review procedures must be performed by the company's independent auditors.

Companies affected by the footnote requirement are generally those listed on national stock exchanges and active OTC companies. The footnote may be omitted if total assets at the latest fiscal year-end were less than $200 million, and income before extraordinary items for at least one of the last three years was less than $250,000.

Table 64. Reports Including Interim Financial Data

	Commercial Banks		Multi-bank Holding Companies		One-bank Holding Companies	
	78	77	78	77	78	77
Reports in which a footnote on quarterly operations was:						
Included	47%	33%	94%	93%	92%	92%
Not included	53	67	6	7	8	8
	100%	100%	100%	100%	100%	100%

Of the reports that included a footnote on quarterly operations, 3% of the commercial banks and 4% of the holding companies referred to an accountant's review of the quarterly data.

Publicly traded companies that issue interim financial information and do not issue a separate fourth quarter report or disclose the results of the fourth quarter in their annual reports are required by APB No. 28 to disclose the following in their annual reports:

Disposal of a segment of a business

Extraordinary, unusual or infrequently occurring items

Aggregate effect of year-end adjustments material to the results of the fourth quarter (similar in some respects to changes in accounting estimates)

Three percent of the commercial banks and 8% of the bank holding companies included disclosures of fourth quarter segment disposals or extraordinary, unusual or infrequently occurring items and 11% of the commercial banks and 9% of the bank holding companies included disclosures of year end adjustments in their reports.

Lease commitments

FASB Statement No. 13 "Accounting for Leases" is effective for leasing transactions entered into on or after January 1, 1977.

The pronouncement sets forth rules for the classification of leases as either "Capital leases" or "Operating leases." Capital leases were disclosed by 43% of the survey companies as compared to 23% in 1977 and operating leases were disclosed by 91% of the survey companies as compared to 88% in 1977. Retroactive application of FASB's lease accounting requirements is required by 1981 for all leases entered into prior to 1977. However, the SEC required retroactive adoption of these new requirements for financial statements for years ending on or after December 24, 1978. If retroactive application is not adopted "as if" disclosures are required on leases entered into prior to 1977, if material.

Because of the early adoption requirement of the SEC only 15% of the holding companies indicated that they had not retroactively applied FASB's requirements. One of these companies indicated that retroactive application would have violated restrictive covenants in a debt agreement and disclosed the "as if" effects while the remainder generally indicated that the effects of retroactive application would not have been material.

Fifteen percent of the commercial banks indicated that they had not adopted retroactive application of FASB No. 13 with 10% indicating that the effects of such adoption would not have been material and 5% making the "as if" disclosure.

Table 65 indicates the subject matter most often included in lease disclosures.

Table 65. Lease Disclosures

	Commercial Banks		Multi-bank Holding Companies		One-bank Holding Companies	
	78	77	78	77	78	77
Percent of reports with capital leases which disclosed:						
Gross amount of assets capitalized by major category	26%	50%	46%	44%	57%	50%
Future minimum lease payments	74	50	59	74	67	72
Executory costs deducted	30		16	29	20	17
Imputed interest	61	50	54	65	63	72
Present value of remaining commitments	61	33	50	68	63	72
Minimum rentals under noncancelable subleases	30	50	27	21	33	33
Contingent rentals paid			5		7	5
Capital lease obligations	78	67	73	75	76	50
Number of reports disclosing capital leases	23	6	56	34	30	18
Percent of reports with operating leases which disclosed:						
Rental expense for the year	97%	100%	98%	97%	97%	97%
Minimum rent expense	27	39	32	59	23	52
Contingent rent expense	5	4	8	10	9	7
Sublease rent income	18	22	18	22	16	18
Future minimum rental payments for next five years and in the aggregate	95	90	86	92	88	91
Total minimum sublease rents receivable	13	18	17	15	18	24
Number of reports disclosing operating leases	63	49	110	106	57	67

Related party transactions

A Statement on Auditing Standards entitled "Related Party Transactions," issued by the American Institute of Certified Public Accountants, provides that the independent auditor should identify certain types of related party transactions and such transactions, when material, should be adequately disclosed in the financial statements of the reporting entity that participated in the related party transactions.

In addition, Article 9 of Regulation S-X (see Section A for a summary of Article 9) now requires disclosure of loans to or borrowings from directors, executive officers or principal holders of equity securities when the aggregate amount exceeds 5% of shareholders' equity. Loans and borrowings include amounts with any businesses in which those persons have a 10% interest. Although Article 9 was not effective for any reports included in this survey, several companies adopted its provisions before the effective date.

The table in this section and the examples which follow deal with the most frequent types of related party transactions disclosed. A reporting entity could have disclosure of related party transactions concerning both loans and leases; therefore, a certain reporting entity could be accounted for in each of the captions cited in this table. "Other" types of related party transactions were cited by 10% of the commercial banks and 6% of the holding companies.

The table indicates an increasing trend in the number of related party transaction disclosures. In 1976 32% of the reports surveyed contained disclosure of related party transactions while 41% of the surveyed reports contained such disclosures in 1977 and 51% in 1978.

Table 66. Related Party Transactions

	Commercial Banks		Holding Companies	
	78	77	78	77
Reports in which related party transactions were:				
Disclosed	56%	37%	50%	43%
Not disclosed	44	63	50	57
	100%	100%	100%	100%
Reports in which aggregate related party transactions exceeded 5% of equity for:				
Loans	33%	*	35%	*
Deposits or indebtedness	7	*	2	*
Of the reports noting disclosure, the percentage of reports containing disclosure concerning the following were:				
Loans	81%	60%	91%	81%
Lease arrangements	14	20	9	12
Deposits or indebtedness	22	*	13	*

*Information was not accumulated for 1977.

Wage and price guidelines

During October 1978 the President's Council on Wage and Price Stability (CWPS) announced its program for voluntary wage and price controls. During 1979 CWPS released an interpretation that dealt with the application of the program to banks.

Only 2% of the companies surveyed included discussion of wage and price guidelines in their reports, generally in the letter to the stockholders. None of the companies mentioned wage and price guidelines in the notes to the financial statements.

EXAMPLES Accounting policy disclosures

REPUBLIC NEW YORK CORPORATION

Summary of Significant Accounting Policies

The accounting and reporting policies of Republic New York Corporation ("the Corporation") and its subsidiaries, principally Republic National Bank of New York ("the Bank"), reflect banking industry practices and conform to generally accepted accounting principles. A summary of the significant accounting policies followed by the Corporation and the Bank in the preparation of the accompanying consolidated financial statements is set forth below:

A. Basis of Consolidation: The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries: the Bank and its subsidiaries, Republic National Bank of New York (International), Limited, Nassau, Bahamas (a foreign corporation), Republic Bullion Corporation, American Swiss Credit Corporation, Fifth Avenue Commercial Credit Corp., and Republic Factors Corp.; RNYC Securities Limited (a foreign corporation) and Republic Clearing Corporation. Significant inter-company transactions are eliminated in consolidation.

B. Foreign Operations: Foreign currency assets and liabilities have been converted into U.S. dollar equivalents at rates of exchange prevailing at the respective year ends. The resultant gains or losses, which are not significant, are included in other income or other expenses. Operating income and expenses of foreign operations have been converted into U.S. dollar equivalents at rates of exchange prevailing at the time the income was earned or the expenses incurred. The Bank's foreign exchange position is revalued monthly by pricing spot foreign exchange and forward contracts for foreign exchange at prevailing market rates. The resultant net gains or losses are shown as foreign exchange trading income.

Foreign currencies due on loans and interest bearing deposits with banks are generally sold under fixed forward contracts at prices which differ from cost at the date of the loan or deposit. Such differences, which are considered part of the loan and deposit yields, are reflected in income ratably over the life of the contracts and are included with interest and fees on loans and interest on deposits with banks, respectively.

C. Precious Metals: The Bank engages in precious metals arbitrage and also purchases and holds precious metals for future delivery. Precious metals, including silver coins, and outstanding futures contracts are revalued monthly at prevailing market rates. The resultant net gains or losses are included in income from precious metals. Precious metals which are purchased and held for future delivery under fixed contracts are shown at cost; the excess of the fixed sale contract price over cost is accreted into income from precious metals over the life of the contract. Additionally, the Bank is a licensed depository for the storage of gold and silver bullion and coins traded on various commodity exchanges. Fees derived from such storage are accrued and included in other income.

D. Investment Securities: Investment securities are carried at cost adjusted for amortization of premium and accretion of discount. Gains or losses on sale of securities (specific identification basis) are recognized upon realization and are shown, less related taxes, as securities gains or losses.

E. Loans: Loans are carried at their principal amount outstanding. Unearned discount on discounted loans is accreted monthly into income on a straight-line method except for installment loans on which the Rule of 78's is used. Interest on loans is accrued monthly.

Loans (excluding consumer installment loans) are placed on a non-accrual status when principal or interest payments are past due 60 days or more, unless, in the opinion of management, based upon a review of the borrower's or guarantor's financial condition, collateral value, or other factors, payment is probable. A loan may be placed on a non-accrual status prior to the 60 day period if, in management's opinion, conditions warrant.

F. Allowance for Possible Loan Losses: The Bank and its subsidiaries are on the allowance method in providing for loan losses. Accordingly, all loan losses are charged to the allowance for possible loan losses account and all recoveries are credited to it. The consolidated provision for loan losses charged to operating expense is based on the Bank's past loan loss experience and other factors which, in management's judgment, deserve current recognition in estimating possible loan losses. Such other factors considered by management include growth and composition of the loan portfolio, the relationship of the allowance for possible loan losses to outstanding loans, and economic conditions.

G. Bank Premises and Equipment: Premises and equipment, including leasehold improvements, are carried at cost less accumulated depreciation and amortization. Depreciation and amortization are computed on a straight-line basis and are charged to operating expense over the estimated useful life or lease term of the assets. Maintenance and repairs are expensed as incurred and renewals and betterments are capitalized. Upon normal retirement or replacement, the cost of property is charged to accumulated depreciation, with no effect on income.

H. Income Taxes: The Corporation files a consolidated Federal income tax return with the Bank and its domestic subsidiaries. Deferred income taxes are provided to reflect the tax effect of timing differences in reporting income and deductions for tax purposes, the most significant being unrealized profit or loss on precious metals and foreign exchange trading activites and the provision for loan losses. The earnings of the Bank's foreign subsidiary (Republic National Bank of New York (International) Limited) are not subject to U.S. income taxes, except to the extent that they are remitted as dividends to the Bank. The undistributed earnings of the Bank's foreign subsidiary are expected to be reinvested indefinitely in the subsidiary's operations. Accordingly, no taxes have been provided on the undistributed earnings. Investment tax credits are recognized on the flow-through method.

I. Promotion Expense: The cost of merchandise premiums used by the Bank in connection with promotional activities to attract consumer time deposits has been deferred and is being amortized over the life of the related time deposits. Such amortization is included in promotion and advertising expense.

J. Retirement Plan: The Bank retirement plan covers substantially all of its employees and those of the Corporation and its subsidiaries. Past service costs are calculated using an actuarial method which essentially spreads the cost of future benefits for past service over the average future service lives of active employees. Pension costs are funded as accrued.

K. Reclassification: Certain 1977 amounts have been reclassified to conform with 1978's presentation in compliance with revised Securities and Exchange Commission reporting requirements.

AMERICAN SECURITY CORPORATION

Summary of Significant Accounting Policies

The accounting and reporting practices of American Security Corporation and subsidiaries conform to generally accepted accounting principles and to predominant practices within the banking industry. Revenues and expenses are recorded on the accrual basis of accounting except for certain trust and loan fees which are recorded on a cash basis in accordance with industry practice. Other major accounting policies and practices are described below.

Principles of Consolidation

The consolidated financial statements include the accounts of American Security Corporation and its subsidiaries (the Corporation). In the consolidated financial statements, the Corporation's 5.9 percent investment in Allied Bank International is accounted for on the equity basis of accounting.

Under the equity method, the Corporation records income for its pro-rata share of the affiliate's net income, and the Corporation's investment in the affiliate, carried in other assets, is increased by that amount. When dividends are received from the affiliate, they are treated as distributions of previously recorded income and are used to reduce the Corporation's equity interest in its affiliate.

In the Parent-only financial statements, income from all subsidiaries is shown under the variation of the equity method required by the Securities and Exchange Commission (SEC). Under this variation, dividend income from subsidiaries is shown separately from the parent's equity in undistributed earnings.

The accompanying consolidated financial statements exclude all material intercompany transactions and amounts. Certain accounts have been reclassified for comparability.

Securities

Investment Securities other than marketable equity securities are carried at cost plus unamortized premiums and less unaccreted discount. Premiums, which serve to reduce the stated yields on securities, are amortized to the earlier of the call dates or maturity dates of the securities. Discounts, which serve to increase the stated yields, are accreted to maturity dates. Marketable equity securities included in Other Securities in the Financial Statements are carried at the lower of cost or market. A valuation allowance has been established by a charge to Stockholder's equity to adjust the carrying value of these securities downward to market value when less than cost.

Trading account securities represent the Bank's inventory of short-term investments in U.S. Government and state and municipal obligations, which the Bank buys and sells for its own account. Interest revenues, less interest expense on short sales, are included in interest revenues, and trading gains or losses on sales are recorded in other income.

Trading account securities are carried at market in accordance with industry practice. Adjustments to market value are also included in other income.

Gains and losses on investment securities are determined on the specific securities sold.

Loans

Loans are carried at face value less unearned income and the Valuation Allowance for loan losses. Interest income on direct reduction non-discount loans is accrued at a constant rate on the outstanding principal. Interest on discounted loans is recorded over the term of the loan by a method that results in a level yield.

Where serious doubts exist as to collectibility, the interest accrual is discontinued and previously accrued but unpaid interest is reversed.

Lease Financing

The Corporation is an equity participant in a number of leveraged lease trusts and partnerships. The leased equipment is purchased by the trusts with funds obtained from equity participants and funds borrowed from unaffiliated financial institutions. The borrowed funds, or leverage, are secured by claims on the leased equipment without recourse to the equity participants.

The investment in leveraged leases is carried at the Corporation's share of rents receivable plus the estimated residual value of the equipment and is reduced by applicable unearned income, including investment tax credits.

For Federal income tax purposes, these leases are accounted for under the operating method, and deductions from rental income are claimed for depreciation of the equipment and interest costs on the nonrecourse debt.

In the early years of the lease, losses are realized for federal income tax purposes. Investment tax credits are claimed in the initial year of the lease. Deferred income tax liabilities are recorded based upon the timing difference between the income for financial reporting purposes and the losses for tax purposes. These deferred taxes are reversed in the latter part of the lease term as taxable income exceeds the income reported in the financial statements.

Direct lease transactions are accounted for on the financing method of accounting for financial reporting and tax purposes.

Valuation Allowance For Loan Losses

The valuation allowance for loan losses represents management's estimate of an amount adequate to provide for losses which may be incurred on loans currently held. The provision for loan losses is charged to expense and serves to increase the valuation allowance to a level which management deems adequate.

Management determines the adequacy of the valuation allowance based on historical patterns of loan charge-offs and recoveries for the Corporation, industry experience, current economic conditions, changes in the composition of the loan portfolio, and other factors which are relevant to the collectibility of the loans currently in the portfolio.

Income Taxes

The Corporation accounts for certain income and expense items in different time periods for financial reporting purposes than for income tax purposes. Deferred taxes are recorded in recognition of the resulting timing differences.

American Security Corporation and its domestic subsidiaries file consolidated Federal income tax returns. In the Parent Corporation-Only Financial Statements, taxes have been shown on a separate company basis. Tax payments are made by American Security Corporation and each subsidiary on a separate company basis. There are no transfers of deferred tax benefits or liabilities between American Security Corporation and the Bank.

For financial reporting purposes, investment tax credits, which are realized in the year of acquisition of the related property, are treated as a reduction of the current provision for income taxes except as they arise from leveraged leases. Investment tax credits on leveraged leases are deferred and amortized over the terms of the leases. For tax purposes, investment tax credits on all properties serve to reduce the current year's tax liability.

Translation of Foreign Currency Items

Assets and liabilities denominated in foreign currencies are translated into United States dollar equivalents by use of the exchange rates in effect at the balance sheet dates. The assets or liabilities are stated in the Consolidated Balance Sheet at their U.S. dollar equivalents. The unrealized net gains or losses from translation are included in income or expense in the Consolidated Statement of Income.

Foreign exchange income, which includes realized and unrealized translation gains and losses and foreign exchange trading income, is included in other income. Foreign exchange trading income arises from contracts for future purchases of foreign currencies entered into primarily in support of letters of credit issued for customers and denominated in foreign currencies.

Employee Benefit Plans

The Corporation has a pension plan and a thrift and savings plan for the benefit of its eligible employees.

The pension plan is a non-contributory plan funded by the Corporation. The thrift and savings plan is a voluntary savings program in which participants may invest up to ten percent of their base salaries and the Corporation makes contributions equal to 50 percent of the amounts invested by the participants.

The Corporation funds the costs of these plans as they accrue.

Banking Premises, Equipment and Other Real Estate

Banking premises, equipment and other real estate is stated at cost less accumulated depreciation and amortization. Depreciation is calculated on a straight-line basis over the useful lives of the assets which range up to 40 years on buildings and 20 years on equipment. Maintenance and repairs are charged to current operations and improvements are capitalized. At retirement the costs of the assets and the related accumulated depreciation are removed from the financial records. Any resulting gains or losses are recognized in the years of the retirements.

At year-end 1978 and 1977 the Corporation held no real estate acquired by loan swap or significant real estate acquired by foreclosure.

Earnings Per Share

Earnings per share have been calculated on the basis of the weighted average number of shares outstanding for the periods. The computations exclude shares issuable under stock options because their effect would not be material.

FIRST BANKSHARES CORP. OF S.C.

Notes to Consolidated Financial Statements

December 31, 1978 and 1977

Summary of Significant Accounting Policies:

Basis of presentation--The consolidated financial statements include the accounts of First Bankshares Corp. of S.C. and its wholly-owned subsidiaries after elimination of all material intercompany accounts and transactions.

Investment securities--Investment securities are stated at cost adjusted for amortization of premiums and accretion of discounts computed on the straight-line method. Interest from investment securities is after giving effect to current period premium amortization, while accretion of discount is presented as a separate item of income. Gains or losses on the sale of investment securities are shown separately under the caption, "Securities gains or losses." The adjusted cost of the specific security sold is used to compute the gain or loss on sales of investment securities.

Temporary investments--Temporary investments consist of Federal funds sold and securities purchased under agreements to resell, trading account securities, certificates of deposit with unrelated banks, first mortgage loans held for sale and money market investments. Money market investments are principally composed of bankers' acceptances and brokers' loans.

Temporary investments are stated at cost except for trading account securities and first mortgage loans held for sale, which are stated at the lower of cost or market. The determination of the lower of cost or market of trading account securities is made by aggregating all such securities held. The determination of the lower of cost or market of first mortgage loans held for sale is likewise determined by aggregating all such loans held.

Loans and leases receivable--Interest on commercial loans, real estate mortgage loans and credit card loans is credited to income based upon the principal amount outstanding. Interest on installment loans is credited to income based upon the sum-of-the-months digits method.

Lease receivables and income therefrom are accounted for by the direct financing method. Earned finance income from automotive leases is reflected in operations using the straight-line method. Earned finance income from equipment and aircraft leases is reflected in operations using the sum-of-the-months digits method. Initial direct costs relating to direct financing leases are charged to income as incurred with no offset to unearned income since such costs are immaterial.

Residual values of automotive equipment under lease are guaranteed by the lessees. Unguaranteed residual values of equipment and aircraft under lease are estimated and credited to income using the sum-of-the-months digits method.

Reserve for loan losses--For financial reporting purposes, the provision for loan losses charged to operating expense is based upon a review of the loan portfolio, past loan loss experience, current economic conditions and other pertinent factors which form a basis for management's determination of the adequacy of the reserve for loan losses.

Real properties acquired as a result of completed foreclosure proceedings, or deeded in lieu of foreclosure, are stated at the lower of the outstanding loan balance at the time of foreclosure or its estimated market value. Market value is determined on the basis of the properties being disposed of in the normal course of business and not on a liquidation or distressed sale basis.

Premises and equipment--Premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed primarily by accelerated methods to the extent permitted by Internal Revenue Service regulations, over the estimated useful lives of the assets, except for leasehold improvements for which the lesser of the estimated useful life of the asset or the term of the lease is used. Rates of depreciation and amortization are generally based on the following: buildings--20 to 50 years; leasehold improvements--5 to 20 years; equipment--4 to 10 years.

Additions to premises and equipment and major replacements or improvements are added to the accounts at cost. Maintenance and repairs and minor replacements are charged to expense when incurred. Gains and losses on routine dispositions are reflected in current operations.

Description of leasing arrangements--A significant portion of the real properties occupied by the Corporation and its subsidiaries are leased. Most of the leases are classified as operating leases and expire over various terms with the longest such term extending to the year 2027. Most operating leases provide for the payment of executory costs or increases therein. Additionally, most such leases provide for options to renew at the expiration of the initial lease term. Certain of the leases provide purchase options and others grant the right of first refusal to purchase the property if it should be offered for sale.

A few of the leases on real properties are capital leases. Accordingly, the balance sheets reflect the resulting assets and liabilities under the captions "Bank premises" and "Notes payable," respectively. Interest on lease obligations and amortization on properties under capital leases are shown in the income statement under the captions, "Interest on borrowed money," and "Occupancy expense on bank premises," respectively.

Equipment leases are classified as operating leases and substantially all have initial lease terms of one year or less.

Income taxes and investment tax credits--Certain items of income and expense are accounted for differently for financial reporting and income tax purposes. Provisions for deferred income taxes are made in recognition of such timing differences.

Federal investment tax credits realized at the time of property acquisitions are used to reduce the current provision for income taxes.

Retirement Plans:

Pension plan--The Corporation and its subsidiaries have a non-contributory pension plan covering all employees age 25 or with one year of service, whichever is later. Pension plan expense is computed by the entry age normal method, including amortization of prior service costs over a period of 30 years and is funded as accrued.

Profit-sharing plan--The Corporation and its subsidiaries also have a non-contributory profit-sharing plan. Employees become eligible for participation after reaching age 24-1/2 and being employed six months. Contributions are fixed annually by the Board of Directors but the maximum annual contribution cannot exceed 15 percent of the participant's compensation.

Credit life subsidiary--Credit life insurance premiums are recognized as earned over the terms of the related policies by the following methods: sum-of-the-months digits method for decreasing coverage and straight-line method for level coverage. Claims and losses are charged to operations as incurred. Provision is made, based on past experience, for claims and losses incurred but unreported. Acquisition costs, principally commissions, are deferred and subsequently charged to operations in proportion to premiums earned. Substantially all premiums received by the credit life subsidiary are generated by other subsidiaries of the Corporation.

Trust Department income--Trust Department income, except for certain paying agent fees, has been recognized on the cash basis in accordance with customary banking practice.

Principal business--The Corporation and its subsidiaries' principal business is commercial banking with services primarily limited to the domestic market. In 1978 no single customer (including a group of customers under common control) accounted for 10 percent or more of consolidated revenues. However in 1977 interest earned on U.S. Treasury and U.S. Government agencies and corporations was in excess of 10 percent of consolidated revenues.

EXAMPLES Disclosure of accounting changes and reclassifications

NEW ENGLAND MERCHANTS COMPANY, INC.
(Excerpt from accounting policies footnote)

Accounting Changes

Effective January 1, 1978 the Corporation changed its method of accounting for leases in accordance with Financial Accounting Standards Board Statement No. 13 "Accounting for Leases" (FAS 13). The Statement prescribes that if a lease transfers substantially all of the benefits and risks incident to ownership then it should be accounted for as the acquisition of an asset and the incurrence of an obligation by the lessee. Accordingly, this method of accounting records certain leases as assets, especially those with long initial terms; the present value of the related future lease rentals is recorded as a liability. Generally, the effect of the accounting method will be to record more expense in the early part of the lease and less expense in the later years, but over the lease term the same amount of expense will be recorded. The Statement also requires certain changes in the method of recognizing lease income on certain leases where the Corporation acts as lessor. Finally, the Statement requires that financial statements for prior periods be restated as though this new accounting had been in effect for those periods. The effect of this change in accounting on net income for the periods presented herein was not material. Assets and liabilities have been restated on the accompanying financial statements. Retained earnings has been restated as follows:

	1977	1976
Balance at December 31, as previously reported	$39,216	$32,669
Less adjustment to reflect adoption of FAS 13	1,854	1,637
Balance at December 31, as restated	$37,362	$31,032

Effective January 1, 1977 the Corporation changed its method of recording trust and agency service income from the cash basis to an accrual basis. In the opinion of management, the new method is preferable in that it provides a better matching of revenue and expenses. As a result of this change in accounting principle, a nonrecurring adjustment was made in 1977 of $1,234,000 (after provision for income tax expense of $1,480,000). This amount represents income for services performed through December 31, 1976 but not billed or received as of that date. Had the accrual method been employed in prior years the effect on reported income would not have been material; the change had no material effect on operating income in 1977.

Certain amounts have been reclassified primarily to conform to S.E.C. Regulation S-X, Article 9. These reclassifications had no effect on net income.

CITIZENS AND SOUTHERN NATIONAL BANK
(Separate note to financial statements)

Accounting Changes

In the third quarter of 1977, the Bank and its subsidiaries began determining the reserve for losses on real estate loans expected to be foreclosed after 1977 based on the fair value of the real estate collateral. This change in accounting method was made in anticipation of the application of Statement of Financial Accounting Standards No. 15, which requires that properties acquired by foreclosure after December 31, 1977 be recorded at their fair value, as defined. This change in accounting method resulted in an additional provision for loan losses of approximately $3,500,000, with an after tax effect of $1,750,000 ($.06 per share).

As of the end of the fourth quarter of 1977, the Bank and its subsidiaries changed certain methods and assumptions used in estimating the net realizable value of other real estate (including revisions in methods used to determine carrying costs and reductions in estimated future sales proceeds), changed from the aggregate portfolio to the individual property basis in determining the lower of cost or estimated net realizable value, and revised the estimates of amounts to be realized from collateral on nonperforming real estate loans. These changes, which were made to adopt accounting methods and assumptions recommended by the Comptroller of the Currency, resulted in additional provisions for losses of $10,000,000 for other real estate and $5,000,000 for real estate loans, with an after tax effect of $11,000,000 (.38 per share). The effects of the changes in accounting methods were inseparable from the effects of changes in estimates and, accordingly, the cumulative effect of the accounting changes at January 1, 1977 has not been determined.

EQUITABLE BANCORPORATION
(Separate note to financial statements)

Accounting Change

As of January 1, 1977, The Equitable Trust Company, a wholly owned subsidiary, changed to the sum-of-the-months-digits method (Rule of 78's) for crediting interest on consumer credit installment loans to interest income. The straight-line method had previously been used. The purpose of this change in accounting method is to provide a better matching of income and expenses associated with making loans by crediting interest income to operations in direct proportion to the principal outstanding. The cumulative effect of the change through December 31, 1976 was $2,174,000, net of related income taxes, and is included in income for the year ended December 31, 1977.

VIRGINIA NATIONAL BANKSHARES, INC.
(Separate note to financial statements)

Reclassification

Financial statements for 1977 have been revised by reclassification of certain items to conform to the current presentation. The primary changes relate to the adoption of a net interest income statement format, the combining of bank and bank-related loans and related items, and the inclusion of $21,394,000 and $19,669,000 of Industrial Development Authority loans at December 31, 1978 and 1977, respectively, in investment securities--state and political subdivisions.

EXAMPLES Disclosure of commitments and contingent liabilities (separate note to financial statements)

NATIONAL DETROIT CORPORATION

OTHER COMMITMENTS AND CONTINGENT LIABILITIES:

In the normal course of business the Corporation and its subsidiaries have various outstanding commitments and contingent liabilities including guarantees, commitments to extend credit, foreign exchange futures contracts, etc., which are not reflected in the financial statements. Management does not anticipate any material loss as a result of these transactions.

The Corporation and its subsidiaries are defendants in various legal proceedings arising in the normal course of business. In the opinion of management, based on the advice of legal counsel, the ultimate resolution of these proceedings will not have a material effect on the Corporation's financial position.

Outstanding standby letters of credit at December 31, 1978, totaled approximately $28,000,000.

GIRARD COMPANY

Commitments

In the normal course of business, there are outstanding various commitments and contingent liabilities which are not reflected in the consolidated financial statements. These include agreements to extend loans under various conditions (letters of credit, standby loan guarantees, and future contracts) all of which are typical within the banking industry.

In management's judgment, these agreements outstanding as of December 31, 1978 do not result in unusual risks. Loan commitments confirmed but unused totaled $2.4 billion as of December 31, 1978, and commitments outstanding under standby letters of credit (as defined by Federal banking authorities) totaled $72 million.

HAWAII BANCORPORATION, INC.

CONTINGENT LIABILITIES

As previously reported, Hawaii Bancorporation, Inc. and the Bank, among numerous other parties, are defendants in three federal, and two state, class actions brought by owners of or subscribers to "investment certificates" and owners of "registered subordinated debentures" of THC Financial Corporation ("THCF"), a subsidiary of The Hawaii Corporation ("THC"). In all actions it is alleged that Bancorporation and the Bank as substantial creditors of THCF and/or THC were "controlling persons" of THCF. The complaints allege various violations of the Securities Act of 1933, the Securities Exchange Act of 1934 and various state laws. The principal claims appear to be that the investment certificates and subordinated debentures were "securities" sold without registration in violation of the 1933 Act, that sales during the period when THCF was in "precarious financial position" violated Section 10b of the 1934 Act and Rule 10b-5, which prohibit the use of manipulative and deceptive devices in the sale of any security, and that an advertising campaign of

THCF to increase sales of the certificates violated federal and state securities laws. All five actions purport to encompass the same class and assert essentially identical claims.

Proceedings in the two State court actions have been stayed for an indefinite period, pending developments in the Federal court. The three actions pending in the Federal court have been certified as class actions, placed under the Manual for Complex Litigation and consolidated for pretrial purposes. Only limited discovery proceedings have taken place to date. Discovery proceedings on the merits, through written interrogatories and document production requests, began in September, 1978, and are continuing. Discovery of THCF documents in the possession or control of the Trustee in Reorganization of THCF started in December, 1978, will be conducted through April, 1979. Starting in May, 1979, oral depositions of defendants and other witnesses will begin. The Federal court has set a tentative trial date for April, 1980.

Although Bancorporation and the Bank have raised a number of defenses which appear to have substantial merit, the proceedings have not advanced sufficiently to permit their legal counsel to form an opinion as to the ultimate outcome of the litigation. No inference should be drawn, from their inability to form such an opinion at this time, that Bancorporation and the Bank will not prevail in this litigation.

Bancorporation and the Bank are engaged in various other litigation matters which management believes (based on opinions of counsel) will not have a materially adverse effect on the financial statements of Bancorporation or the Bank.

At December 31, 1978 and 1977, the Bank had outstanding standby letters of credit totaling $15,613,000 and $12,163,000, respectively.

INDUSTRIAL NATIONAL CORPORATION

Commitments and Contingencies:

In the normal course of business, there are various commitments and contingencies outstanding, such as guarantees, forward foreign exchange contracts and commitments to extend credit, which are properly not reflected in the consolidated financial statements. Included in this category at December 31, 1978 and 1977 were standby letters of credit issued by Industrial National Bank of Rhode Island totalling $10,747,000 and $12,036,000, respectively.

The management of the Company believes that, under the Bank Holding Company Act of 1956, as amended, and the Regulations of the Federal Reserve Board issued thereunder, it will be required, prior to 1981, to divest itself of that portion of the business of Westminster Properties, Inc., a consolidated subsidiary, involving the making of real estate equity investments.

In the ordinary course of business, the Company and various of its subsidiaries are involved in various legal actions and proceedings.

Management does not anticipate that the losses, if any, as a result of these commitments and contingenies would materially affect the financial position of the Company taken as a whole.

FIRST NATIONAL BANK OF ALLENTOWN

Commitments and Contingent Liabilities

In the normal course of business, there are outstanding various commitments and contingent liabilities, such as guarantees and commitments to extend credit and to purchase investment securities, etc., which are not included in the accompanying financial statements; at December 31, 1978, stand-by letters of credit aggregated approximately $3,081,000. The Bank does not anticipate losses as a result of these transactions.

The Bank has entered into various supply agreements with municipalities to deliver at predetermined dates over the next 15 years and at predetermined prices certain U.S. Treasury securities which aggregate approximately $49,700,000. The scheduled deliveries for 1979 amount to approximately $2,800,000.

There are also claims pending against the Bank. In the opinion of management, liabilities, if any, arising from these claims would not have a material effect on financial position or results of operations.

FIRST PENNSYLVANIA CORPORATION

Litigation and other contingencies. The Corporation and certain of its subsidiaries, including the Bank, are subject to a number of legal actions (some of which are also class or derivative actions and proceedings in which substantial monetary claims are asserted and, in some cases, injunctive and other relief is sought). Included in such proceedings is pending litigation relating to a bank subsidiary's participation in the public sale of various issues of New York City securities and a stockholder class action against the Corporation, three of its directors (one of whom is a principal officer and two of whom are former principal officers) and the Corporation's independent accountants. Management, after consultation with legal counsel, does not anticipate that the ultimate liability, if any, arising out of all such litigation and proceedings will have a materially adverse effect on the Corporation's financial condition or results of operations.

Pursuant to the Federal Bank Holding Company Act of 1956, as amended, the Corporation may not retain beyond December 31, 1980 ownership of certain of its non-banking subsidiaries except with Federal Reserve Board approval. The Corporation has filed applications for retention of certain of these subsidiaries (Investors Loan Corporation, Industrial Finance & Thrift Corporation, and Vestaur Corporation) but has not yet filed with respect to PENN-AMCO, Inc. and Associated Advisers, Inc. The Federal Reserve Board has stated that applications should be filed well in advance of the December 31, 1980 deadline (i.e., by September 30, 1979) for retention approval or divestiture. It is the Corporation's present intention to file timely applications for approval of those companies noted above as not yet filed. Although the principal activities of the subsidiaries are among those which the Federal Reserve Board has ruled to be permissible for bank holding companies, no prediction can be made as to what determinations will be made on the applications filed or to be filed.

EXAMPLES Disclosure of intercorporate tax allocation policy (excerpt from summary of accounting policies)

CHEMICAL NEW YORK CORPORATION

The Parent Company and its subsidiaries file consolidated income tax returns. The provision for income taxes of the Parent Company and of each subsidiary is recorded on the basis of filing separate income tax returns, after adjustments related to consolidated income tax return regulations. Current income taxes payable or receivable by each domestic subsidiary are paid to or received from the Parent Company.

MELLON NATIONAL CORPORATION

The Corporation and its domestic subsidiaries file a consolidated U.S. income tax return. The provision for U.S. income taxes of the Corporation and each subsidiary is calculated as if each corporation filed a separate return except that tax benefits of losses are allocated to the corporation incurring such losses to the extent they reduce consolidated taxable income.

The Parent Corporation U.S. income tax benefit arises from including operating losses (before dividends from subsidiaries and equity in undistributed earnings of subsidiaries) in the consolidated tax return.

FIRST WISCONSIN CORPORATION

The Corporation and its subsidiaries file consolidated Federal income tax returns. Income tax benefits applicable to losses of the Corporation on a separate basis are reflected in the Corporation only statements of income.

Investment tax credits are deferred and amortized over the useful lives of the related property.

FIRST UNION CORPORATION

For each subsidiary having taxable income, current Federal income taxes are calculated and are paid to the parent company. Tax benefits are calculated for each subsidiary having a taxable loss and are remitted by the parent company to the extent that tax benefits are realized from filing a consolidated Federal income tax return. State income tax laws do not generally permit consolidated income tax returns; accordingly, applicable state income tax returns are filed for each of the companies. Investment tax credits are accounted for using the flow-through method.

CBT CORPORATION

CBT and its subsidiaries file consolidated Federal income tax returns. The provision for Federal income taxes of CBT and of each subsidiary is recorded on the basis of filing separate income tax returns, with appropriate adjustments for Federal income tax regulations applicable to consolidated tax returns.

BANKS OF IOWA, INC.

The Company and its subsidiaries file a consolidated Federal income tax return. Provisions for income taxes are based on amounts reported in the statements of income (after exclusion of certain nontaxable items, principally interest on state and municipal securities) and include deferred income taxes on timing differences in the recognition of income and expense for tax and financial statement purposes. Investment tax credits, which are not material, are accounted for by the flow-through method as a reduction of the current provision for income taxes.

Deferred income taxes are not recognized on the parent company's equity in the undistributed net income of the subsidiaries because the companies file a consolidated Federal income tax return, and therefore any dividends paid to the parent company are nontaxable. Also, it is expected that any divestitures will be made in a tax-free manner.

EXAMPLES Disclosures relating to deferred income taxes

PACIFIC NATIONAL BANK OF WASHINGTON
(Excerpt from income tax footnote)

Net deferred income tax credits reflected in the statements of consolidated income result from the recognition of certain income and expense items in the financial statements in periods different from those recognized for income tax purposes as follows:

	1978	1977
Provision for loan losses	$(378,787)	$(332,559)
Construction loan fees	(104,000)	(104,164)
Contributions		179,155
Refirement plan	327,664	
Litigation	(327,600)	
Capitalized leases	(129,051)	(127,688)
Other—net	141,803	187,280
Net deferred income tax credits	$(469,971)	$(197,976)

MARINE MIDLAND BANKS, INC.
(Excerpt from summary of accounting policies)

Certain income and expense items are accounted for in different time periods for financial reporting purposes than for income tax purposes. Provision for deferred taxes is made in recognition of such timing differences. Investment credits, other than on equipment leased, are used to reduce applicable income taxes under the flow through method.

(Excerpt from income tax footnote)

Deferred income taxes result from timing differences in the recognition of income and expense for tax and financial reporting purposes. The tax effect of the principal timing differences in 1978 and 1977 were as follows:

	Marine Midland Banks, Inc. (Consolidated) Year Ended December 31,		Marine Midland Bank (Consolidated) Year Ended December 31,	
	1978 (in thousands)	1977*	1978	1977*
Provision for loan losses in excess of (less than) amount reported for financial reporting purposes	$(1,280)	$ 473	$ (722)	$ 1,082
State and local income taxes deducted on a cash basis	1,341	(2,766)	(3,502)	(3,440)
Leasing income recognized on the operating method for income tax purposes and on the financing method for financial reporting purposes	(664)	(865)	(938)	(1,142)
Gain on the sale of assets in excess of the gain determined for financial reporting purposes	(775)	(833)	(629)	(833)
Provision for disposal of bank property	1,207	(2,544)	882	(2,434)
Interest income recognized on a cash basis for income tax purposes	(685)	(1,129)	(685)	(1,129)
Utilization of net operating loss carryover	(2,237)	3,704	(478)	-
Other items	642	360	605	(86)
	$(2,451)	$(3,600)	$(5,467)	$(7,982)

*Restated to reflect reclassification of current and deferred taxes based upon timing differences as finally determined upon filing of tax returns.

Included in interest, taxes and other liabilities of Marine Midland Banks, Inc. (Consolidated) at December 31, 1978 and 1977 are net deferred income taxes of $(2,839,000) and $(388,000), respectively. The 1977 amount has been restated to reflect differences resulting upon filing of tax returns. In addition, deferred income taxes are adjusted during the year for timing differences resulting from income tax examinations.

In prior years, the Corporation followed the policy of transferring all net deferred income taxes of subsidiaries to the Parent Company. In 1978 the Parent Company changed its policy and is restoring deferred balances to the subsidiaries.

ARIZONA BANK

(Excerpt from summary of accounting policies)

The accrual method of accounting is utilized for financial reporting purposes while the cash basis of accounting was utilized for income tax purposes prior to 1977. In 1977, the bank changed its method of accounting for income tax purposes from the cash basis to the accrual basis. The difference between the two methods at December 31, 1976, is being amortized over a ten-year period. Investment tax credits applicable to qualified assets purchased are taken into income in the year generated.

(Excerpt from income tax footnote)

Deferred taxes result from timing differences in the recognition of income and expense for income tax return and financial reporting purposes. The source of these differences and income tax effect of each were as follows:

	1978 (In Thousands)	1977
Amortization of change from cash to accrual basis for tax reporting purposes	$(143)	$(143)
Contribution carryforward	42	82
Differences in recognition of accretion of discount on securities	51	(62)
Deductions for loan losses	215	(486)
Utilization of investment tax credit carryforward	479	-
Other (net)	4	63
	$ 648	$(546)

FIRST WISCONSIN CORPORATION

(Excerpt from summary of accounting policies)

Income Taxes--Income taxes are provided for on the basis of financial statement presentation. Certain items of income and expense are recognized for financial reporting purposes in periods other than those in which they are recognized for tax purposes. Accordingly, income taxes provided in the statements of income include charges or credits for deferred income taxes related to timing differences.

(Separate note to financial statements)

Deferred Income Taxes

Accounts payable and accrued liabilities includes net deferred income taxes of $14,222,000 on December 31, 1978 and $12,663,000 on December 31, 1977. Net deferred income taxes, as of December 31, 1977, as originally reported, have been restated to reflect subsequent decisions affecting certain deductions and the payment of prior years' assessments previously reflected in deferred income taxes.

(Excerpt from income tax footnote)

The sources of timing differences resulting in deferred income taxes and the tax effect of each were as follows:

	1978	1977
	(Thousands of Dollars)	
Excess of tax over book depreciation	$ 695	$ 695
Income from sales of leases not currently recognized	(576)	629
Losses on other real estate not recognized for tax purposes	(1,364)	(1,740)
Deferred tax deduction for losses on loans	1,131	1,634
Provision for agreement with First Wisconsin Mortgage Trust recognized for tax purposes as paid	535	542
Tax basis difference on sale of other real estate	(509)	(586)
Other loss provisions not recognized in current year (net of amount realized)	798	556
Investment tax credit (net of amortization)	1,501	(169)
Other (net)	(652)	(208)
Deferred income taxes	$1,559	$1,353

The cash outlay for income taxes in any of the succeeding three years is not anticipated to substantially exceed income tax expense for any such year.

BANCOKLAHOMA CORP.

(Excerpt from summary of accounting policies)

Deferred income taxes result from recognition of certain items of revenue and expense in the financial statements in different years than for income tax purposes. The principal items are direct lease financing, provision for loan losses, depreciation, and accrued moving cost.

(Excerpt from income tax footnote)

The income tax effect of differences between financial and taxable income was as follows:

	1978	1977
Income from Direct Lease Financing	$ 413,000	113,000
Provision for Loan Losses	(149,000)	(323,000)
Depreciation Expense (Excluding Direct Lease Financing)	323,000	367,000
Accrued Moving Costs	83,000	188,000
Reduction of Deferred Income Taxes for Effect of Net Operating Loss Carryforward	(2,525,000)	(128,000)
Leased Equipment not Capitalized for Tax Purposes	120,000	63,000
Other, Net	23,000	60,000
Total	$(1,712,000)	340,000

At December 31, 1978, the Corporation had a tax loss carryforward of approximately $5,909,000. If not utilized to offset future taxable income, it will expire as follows: $759,000 in 1979, $269,000 in 1982, and $4,881,000 in 1985. For financial statement purposes, the tax loss carryforward has been recognized by reducing net deferred tax credits. To the extent the tax loss carryforward is utilized, net deferred tax credits will be restored at the then current rates.

At December 31, 1978, the Corporation had approximately $649,000 of unused investment tax credits ($199,000 of which has been recognized for financial statement purposes as a reduction of net deferred tax credits) which will expire in 1979 through 1985. To the extent these investment tax credits are utilized, net deferred tax credits will be restored at the then current rates.

Deferred income taxes are included in accrued interest, taxes and expense and amounted to approximately $5,468,000 at December 31, 1978 and $7,047,000 at December 31, 1977.

BANCOHIO CORPORATION

(Excerpt from summary of accounting policies)

There are certain income and expense amounts in the financial statements that are recognized in different time periods for income tax purposes. The principal items are the provision for loan losses, lease financing and depreciation on banking premises and equipment. Appropriate provisions for deferred income taxes are made in recognition of such timing differences.

The investment tax credit on direct lease financing transactions is deferred and amortized to income over the investment recovery period. Investment credit on purchases of banking equipment is accounted for as a reduction of the provision for income taxes on the flow-through method.

(Excerpt from income tax footnote)

Deferred income taxes result from accounting for certain income and expense items in different time periods for financial statement purposes than for income tax purposes. The source of these differences for 1978 and 1977 and the tax effect of each were as follows:

	1978 (in thousands)	1977
Income on direct and leveraged lease financing	$ 382	$1,437
Loan loss provision	(559)	(1,033)
Accretion and uncollected discount	210	(718)
Accelerated depreciation	612	675
Cumulative effect of accounting changes	(638)	(658)
Investment tax credit carry forward	(544)	-
Other--net	67	266
Total	$(470)	$ (31)

Deferred income taxes of approximately $16,730,000 and $17,200,000 are included in other liabilities in the consolidated balance sheets at December 31, 1978 and 1977 respectively.

EXAMPLES Future reductions in deferred income taxes (excerpt from separate note to financial statements)

FIRST INTERNATIONAL BANCSHARES, INC.

Deferred income tax reserves of $31,880,000 and $31,528,000 at December 31, 1978 and 1977, respectively, are included in accrued income tax liability. Based upon currently anticipated expenditures and operations, it is not anticipated that the deferred income tax reserves will be materially reduced or that the cash outlay for income taxes will materially exceed the provision for income tax expense in any of the three years succeeding 1978.

OMAHA NATIONAL CORPORATION

Based upon current estimates, it is expected that the deferred income tax liability will be reduced in 1979, 1980 and 1981, and the cash outlay for taxes associated with those years will exceed tax expense by approximately $34[illegible],000, $27[illegible],000, and $550,000, respectively, primarily due to the reversal of direct lease financing income timing differences.

FLORIDA NATIONAL BANKS OF FLORIDA, INC.

In management's opinion, based upon currently anticipated expenditures, operations and tax planning strategies, there will be no deferred tax reversals where cash outlay for income taxes in any of the succeeding three years will materially exceed the income tax expense for any such year.

EXAMPLES Income tax audit (excerpt from note to financial statements)

SEAFIRST CORPORATION

In connection with its regular audits of tax returns for 1973, 1974, and 1975, the Internal Revenue Service (IRS) has asserted penalty assessments against the Bank in an aggregate amount of approximately $3.3 million. The IRS claims that certain retainer payments made by the Bank to a lawyer during 1973, 1974 and 1975 in the total amount of $46,000 were nondeductible and that, by reason of deducting them, the Bank is liable for the penalties. These claims are being contested; management and legal counsel believe that the Bank will prevail with respect to all of these IRS claims.

UNION PLANTERS CORPORATION

The Federal income tax returns for the years 1972 through 1977 are under examination by the Internal Revenue Service, including, for the years 1975 and 1976, a review by a special agent (special agents are agents who look for possible fraud). Management is of the opinion that there is no basis for any allegation of fraud. The issues raised to date by the special agent have been reviewed with special tax counsel, and based on the facts known at present, they concur with management's opinion.

Several significant issues relating to the matter of liability for additional income taxes have been raised by the Internal Revenue Service although a formal report has not been issued. In the opinion of management, the ultimate resolution of these issues will not have a material effect on the accompanying financial statements.

STATE STREET BOSTON CORPORATION

State Street reached a settlement with the Internal Revenue Service regarding the tax claims which had been asserted against its subsidiary, Union National Bank, for periods prior to the acquisition of Union in August, 1973. As a result of the settlement, Union's additional liability for federal and state taxes, interest, and penalties, net of tax credits for interest and state taxes, and excluding taxes assessed for periods covered by the settlement but allowable as credits in subsequent periods, amounted to $632,000. Because the issues involved relate to periods prior to the acquisition of Union, the amount of the settlement was treated as an additional capitalized cost of acquiring Union, and is being amortized over 35 years.

NORTHWESTERN FINANCIAL CORPORATION

Income Tax Assessments

As previously reported, the Internal Revenue Service (IRS) has completed examinations of the Company's and various subsidiaries' Federal income tax returns for all years prior to 1971. The table below presents a breakdown of tax related matters included in other assets in the accompanying consolidated balance sheets at Decemember 31, 1978, and 1977, including taxes, penalties under Section 6653(b) and interest totaling $9,362,000 which were paid in April 1974.

Description	Taxes (In Thousands)	Penalties	Interest	Total
Claim for Federal tax refund for years 1964 through 1967	$ 162	$ -	$ -	$ 162
Claim for state tax refunds for years 1964 through 1967	32	-	-	32
Future tax deductions allowable in years subsequent to 1967	461	-	-	461
Claim for Federal tax refunds for years 1968 through 1970	5,370	2,685	1,307	9,362
Assessed amounts for state taxes for the years 1968 through 1970	371	-	160	531
Total	$6,396	$2,685	$1,467	$10,548

Claims for refund relating to these income taxes, penalties and interest were filed with the taxing authorities. In October 1976, a suit was filed in the Federal District Court for the Middle District of North Carolina seeking recovery of all monies paid relating to the above Federal assessments. In response to the Company's suit, the IRS issued additional deficiency notices for years 1964-1967 totaling $873,000 ($254,000 in taxes and $619,000 in penalties); such amount has not been paid.

During 1977 with some refinements in 1978, government attorneys recommended full administrative refunds of certain items in the claims aggregating approximately $4,500,000, of which $2,100,000 represents Federal taxes included in the assessments paid in April 1974. The government intends to reduce the administrative refund by the aforementioned $873,000 in additional assessments for 1964-1967.

Although no assurances can be given that the refund of the precise amount will be finally approved, in management's and its counsel's judgment, the recovery by administrative refund of approximately $3,600,000 is probable. With respect to the remaining issues included in the claims and suits for refund, counsel has advised management that while some progress has been made, there are no settlement proposals now pending and thus no evaluation can be given as to the likelihood of the ultimate outcome of these remaining issues.

The IRS is engaged in an audit of the Company and its subsidiaries tax returns for 1971 through 1974. Both regular agents and special agents of the Intelligence Division have been involved in the audit. The special agents' involvement has been completed and their recommendations favorably resolved. To date, no report in respect of the regular agents' examination has been issued. Certain practices that gave rise to assessments for the years 1968 through 1970 have continued for one or more years subsequent to 1970. In the event the IRS should prevail in respect to inclusion of certain items in income for years prior to 1971, then it may be possible that additional assessments will arise on completion of these examinations for years after 1970.

LOUISIANA NATIONAL BANK OF BATON ROUGE

The Internal Revenue Service has completed its examination of the Bank's consolidated federal income tax returns for calendar years 1971 through 1976. The Bank is in the process of litigating certain adjustments proposed by the Service relating principally to the timing of the recognition of certain items of income and expense for which income taxes have previously been provided. Management anticipates that the ultimate resolution of these issues will have no material effect on the financial statements.

DEPOSIT GUARANTY CORP.

Included in the consolidated statement of condition is a net deferred tax liability of approximately $1,775,000 at December 31, 1978 and $3,000,000 at December 31, 1977. An Internal Revenue Service examination, which was concluded in 1978, resulted in adjustments to the lives assigned to certain assets for tax purposes and accelerated the payment of $457,000 of previously deferred taxes.

ZIONS UTAH BANCORPORATION

Federal income tax returns of Zions have been examined by the Internal Revenue Service for all years through 1976. In the opinion of management, adequate provision has been made in the accompanying financial statements for amounts which may ultimately be paid.

TENNESSEE VALLEY BANCORP, INC.

The Internal Revenue Service is examining the Corporation's federal income tax returns for the years 1971 through 1974 and has proposed certain adjustments. While the examination is not yet complete, management believes the financial statements adequately provide for any additional income tax liabilities which may ultimately result.

EXAMPLES Carryforwards and carrybacks of tax losses and credits (excerpt from note to financial statements)

UNION PLANTERS CORPORATION

As a result of prior years' operating losses for accounting purposes exceeding losses for federal income tax purposes, the Corporation and its subsidiaries have a loss carryforward for accounting purposes of approximately $11,000,000. No net deferred tax benefits have been recorded for these accumulated timing differences. Tax benefits which may result from the accounting loss carryforward will be recognized as extraordinary credits if and when realized.

As a result of an amendment to the Internal Revenue Code (Section 172(b)(1)(F), a net operating loss incurred by the Bank subsidiary for any taxable year subsequent to 1975 may be carried back and applied against its taxable income for the immediately preceding ten taxable years. Accordingly, as a result of its loss for federal income tax purposes in 1976, the Bank has received a refund of approximately $7,300,000 and will file a claim for an additional refund of approximately $2,200,000 which is reflected in other assets net of a valuation reserve of $1,100,000 at December 31, 1978 and 1977. The valuation allowance was established at December 31, 1976, in connection with a reevaluation of the recoverable taxes because, in the opinion of management and special tax counsel for the Bank, there is some uncertainty as to the amount of taxes paid for 1966 which will be recovered. Management believes the valuation allowance established is adequate.

After carrying its 1976 net operating loss for federal income tax purposes back to years since 1966 and assuming that approximately $5,800,000 will be carried back to 1966, the Corporation and its subsidiaries have approximately $2,900,000 of net operating loss carryforward from 1976 and approximately $3,100,000 from 1977 which carryforwards are expected to be utilized in full on the 1978 income tax return.

The Corporation and its subsidiaries have investment tax credit carryforward benefits aggregating approximately $1,400,000 available to offset future tax liability. Such credits, if not utilized, will expire at various dates (primarily 1983-$450,000, and 1984-$300,000, and 1985-$300,000) to December 31, 1985. At December 31, 1978 no benefit applicable to the aforementioned credits had been recognized.

BANK OF THE COMMONWEALTH

As of December 31, 1978, the Bank has net operating loss carryforwards available to reduce taxable income for financial reporting and tax purposes in future years. Federal income tax loss carryforwards for financial reporting purposes are $54,600,000 of which $40,700,000 represents amounts previously expensed in the financial statements which the Bank may claim as tax deductions in future years. Tax basis loss carryforwards of $11,300,000 and $2,600,000 will expire, if unused, in 1980 and 1982, respectively.

The extraordinary item in the consolidated statement of operations for 1978 and 1977 represents the tax benefit of utilizing loss carryforwards to partially eliminate the Michigan Single Business Tax.

BANCOKLAHOMA CORP.

At December 31, 1978, the Corporation had a tax loss carryforward of approximately $5,909,000. If not utilized to offset future taxable income, it will expire as follows: $759,000 in 1979, $269,000 in 1982, and $4,881,000 in 1983. For financial statement purposes, the tax loss carryforward has been recognized by reducing net deferred tax credits. To the extent the tax loss carryforward is utilized, net deferred tax credits will be restored at the then current rates.

At December 31, 1978, the Corporation had approximately $649,000 of unused investment tax credits ($199,000 of which has been recognized for financial statement purposes as a reduction of net deferred tax credits) which will expire in 1979 through 1985. To the extent these investment tax credits are utilized, net deferred tax credits will be restored at the then current rates.

Refundable income taxes, resulting from carryback of net operating losses sustained for income tax purposes, aggregated $2,940,000 for 1977, and is included in other assets.

NATIONAL CENTRAL FINANCIAL CORPORATION

The 1978 and 1977 income tax benefits result from utilization of portions of 1978 and 1977 taxable losses as carrybacks to recover Federal income taxes paid in prior years and recognition of a deferred tax benefit as an offset to previously recorded deferred taxes, which would otherwise amortize during the carryforward period.

At December 31, 1978, the Corporation had available for income tax purposes net operating loss carryforwards, aggregating $974,000, expiring in 1984 ($411,000) and 1985 ($563,000), to offset future taxable income of the consolidated group. In addition, investment tax and other carryforward credits in the aggregate amount of $812,000 are available through 1985, the majority of which expire in 1984 and 1985.

NORTHERN STATES BANCORPORATION

The following summarizes these carryforwards:

Tax Carryforwards (In Thousands)	Financial Statements	Income Tax
Operating loss	$2,300	$ 100
Investment tax credit	81	1,319
Foreign tax credit	615	1,314

Only the tax benefits resulting from utilization of financial statement carryforwards would be reflected in income in the future and any additional amounts utilized for tax purposes would be credited, for the most part, to deferred income taxes. The tax carryforwards expire in varying amounts in 1979 through 1985.

FIRST VALLEY CORPORATION

A summary of the Federal income tax provision (benefit) follows:

	Year Ended December 31,	
	1978	1977
	(in thousands)	
Refundable Federal Income Taxes	$32	$(1,045)
Net Write-off Relating to Timing Differences	63	127
Total Tax Provision (Benefit) Applicable To Net Income	$95	$ (918)

Refundable Federal income taxes of $1,045,000 in 1977 arise from the carryback of the 1977 tax operating loss to prior years while the $32,000 in 1978 relates to the difference between the refund to be received and the previously recorded receivable. Prior to 1978, the Corporation reported income on a cash basis for Federal income tax purposes and had recorded a deferred tax benefit relating to cash basis timing differences between income as determined for financial reporting and for Federal income tax purposes. During 1978, the Corporation changed its method of reporting income to the accrual basis for Federal income tax purposes and accordingly the previously recorded deferred income tax benefits of $630,000 will be amortized over ten years.

EXAMPLES Disclosures of dividend limitation due to regulatory requirements (separate note to financial statements)

FIRST UNITED BANCORPORATION, INC.

Dividends From Subsidiary Banks

The principal source of income and funds for a bank holding company is cash dividends received from subsidiary banks. Bank regulatory agencies limit the amount of dividends which a bank can pay without obtaining approval from the agencies. The amounts available for payment of dividends by subsidiary banks in 1979, without regulatory approval, will be the net income for 1979 plus the retained undistributed income of 1977 and 1978 for each bank, which aggregated $10,930,000.

CHARTER NEW YORK CORPORATION

Restrictions on Subsidiary Bank Dividends

Federal and State laws impose restrictions upon the amount of dividends which Charter's subsidiary banks may declare. The most restrictive of those provisions requires approval by the appropriate bank regulatory agency in the event that a subsidiary bank declares dividends in any calendar year in excess of that year's net profits, plus the retained net profits of the two preceding years. Based upon this formula Charter's subsidiary banks can, without seeking regulatory approval, declare dividends in 1979 of approximately $73,715,000 (retained net profits for 1978 and 1977) plus an additional amount equal to their net profits for 1979 up to the date of any such dividend declaration.

BANCSHARES OF NEW JERSEY

Surplus And Retained Earnings Restrictions

Subsidiary bank dividends are the principal source of funds for payment by the Company of shareholder dividends as well as the Company's operating expenses. Under the Federal Reserve Act, restrictions exist on the availability of the subsidiary bank's undistributed earnings for the payment of dividends to the Company without prior approval of the bank regulatory authorities. Such approval is required for dividends in any year which would exceed the net profit (as defined) for that year combined with the retained net profits (as defined) for the two preceding years. Net profits is defined as the bank's net income, adjusted by substituting actual net losses for the provision for loan losses included in operating expenses. The Company's retained earnings at December 31, 1978, included $28,899,000 of undistributed earnings of subsidiary banks, $25,668,000 of which is restricted under the formula and unavailable for dividends without regulatory approval.

J. HENRY SCHRODER BANK & TRUST COMPANY

RESTRICTIONS

Under applicable Federal and New York State Banking Laws, the Company is subject to legal limitations on the amount of dividends that it may pay. At December 31, 1978, approximately $14,000,000 of capital surplus was so restricted.

FIRST AMTENN CORPORATION

Dividends from subsidiaries

The extent of dividends which may be paid to the Corporation from its subsidiaries is governed by applicable laws and regulations. For national banks, the approval of the Comptroller of the Currency is required if dividends declared in any year exceed net profits for that year (as defined under the National Bank Act) combined with the retained net profits of the two preceding years.

Other subsidiaries incorporated under the laws of Tennessee may pay dividends only to the extent of their unreserved and unrestricted earned surplus or undivided profits.

As of December 31, 1978, approximately $16.9 million was available for distribution as dividends from subsidiaries to the Corporation in accordance with the above restrictions. Although this amount may legally be paid as dividends by subsidiaries to the Corporation, as a practical matter other considerations, such as the adequacy of the capital to support a subsidiary's business, may affect the payment of dividends to the Corporation.

FINANCIAL GENERAL BANKSHARES, INC.

Dividends From Member Banks

Dividends from member banks (subsidiary and affiliated controlled) are paid to the Parent Company to finance corporate operations. National banking laws (affecting seven of the banks) prohibit payment of dividends greater than the retained net profit of the prior two years plus the net profit of the current year, without written approval of the Comptroller of the Currency. The remaining five banks are regulated by the F.D.I.C. and their respective states of incorporation. F.D.I.C. regulations do not limit the payment of dividends, however, the various state banking laws allow payment of dividends in any reasonable amount so long as there is no impairment of the banks' capital stock accounts.

The dividend payments from the member banks to the Parent Company have been considerably less than the limitations of the law. In the opinion of management, continuation of this same policy is adequate to finance corporate activities.

SOCIETY CORPORATION

Dividends from subsidiaries--$000's omitted

At December 31, 1978 consolidated retained earnings of Society Corporation included $69,590 of undistributed income of its subsidiary banks. Dividends paid by the subsidiary banks are subject to certain restrictions as set forth in national and state banking laws and regulations. At December 31, 1978, undistributed earnings of $27,665 were free of such restrictions and available for the payment of dividends to the parent company.

EXAMPLES Goodwill charged to undivided profits or capital surplus

CALIFORNIA FIRST BANK
(Separate note to financial statements)

Accounting Treatment for Goodwill

In 1975, the Bank acquired the assets and assumed the liabilities of a one-bank holding company and its bank subsidiary.

This acquisition was accounted for as a purchase. Under generally accepted accounting principles, the excess of purchase price paid over the value of net assets acquired (goodwill) should be recorded as an asset and amortized to income over a period of not more than 40 years. In this instance, goodwill of $37,392,880 was charged directly to surplus. This accounting treatment is in conformity with the accounting required by bank regulatory agencies. The accounting for goodwill continues to be a matter of controversy within the accounting profession, and the matter continues to be under reconsideration by the Financial Accounting Standards Board, the chief accounting rule-making body. In the opinion of management, the treatment followed by the Bank is preferable to that under generally accepted accounting principles. Had goodwill been recorded as an asset and amortized, using a 40-year life, 1978 and 1977 net income would have been reduced by $934,822 or $0.17 per share. Shareholders' equity would have been reported as $152,196,898 and $142,345,140, as of December 31, 1978 and 1977, respectively.

FIRST JERSEY NATIONAL CORPORATION
(Separate note to financial statements)

Excess of Cost over Fair Value of Acquired Bank

During 1974, the acquisition of Belmar-Wall National Bank by First Jersey National Bank was accounted for as a purchase. The excess of the purchase price over the fair value of the assets acquired, approximating $5,709,000, was immediately charged against undivided profits of First Jersey National Bank in accordance with the regulations of the Comptroller of the Currency. In addition, First Jersey National Bank transferred $5,000,000, received as a capital contribution from First Jersey National Corporation, from surplus to undivided profits. Such write-off and transfer are not in accordance with generally accepted accounting principles. However, the excess of cost over fair value has been included in the accompanying consolidated financial statements of First Jersey National Corporation and is being amortized over forty years.

MANUFACTURERS BANK
(Separate note to financial statements)

ACQUISITION

As of December 31, 1973, the Bank acquired all assets and assumed all liabilities of Lincoln Bank for approximately $1,500,000 in cash and approximately $1,500,000 in 7% notes payable in equal annual installments over a five year period. The business combination was accounted for by the purchase method of accounting. Accordingly, the assets acquired and liabilities assumed were recorded at estimated fair market values at the date of acquisition.

Pursuant to bank supervisory authority requirements, the Bank charged the excess of the cost over fair market value of net tangible assets acquired directly to undivided profits rather than recognize the excess as goodwill in accordance with generally accepted accounting principles. As a result, shareholders' equity and the results of operations as reflected in the accompanying consolidated financial statements differ from amounts determined under generally accepted accounting principles. At December 31, 1978 and 1977, the unamortized goodwill based upon a 20 year amortization period (a term considered by management to be reasonable in the circumstances) would be $1,445,587 and $1,541,960 and 4.7% and 8.9% of shareholders' equity, respectively, with annual amortization of approximately $100,000. The amortization would be immaterial to the results of operations and the unamortized balance would be immaterial to shareholders' equity at December 31, 1978.

NATIONAL STATE BANK
(Excerpt from summary of accounting policies)

Goodwill

In accordance with bank regulatory requirements goodwill arising on acquisitions is charged to undivided profits at the time of acquisition. The financial statements reflect the direct charge-off of goodwill in the amounts of $2,650,000 and $2,596,000 in 1971 and 1972, respectively. If such amounts had been capitalized as required by generally accepted accounting principles and amortized over the maximum amortization period (40 years), stockholders' equity would be increased at December 31, 1978 by approximately $4,300,000.

EXAMPLES Interim financial data footnote (different methods of presentation)

FLORIDA NATIONAL BANKS OF FLORIDA, INC.

UNAUDITED INTERIM CONSOLIDATED FINANCIAL INFORMATION

The following is a summary, in thousands of dollars except for the per share information, of unaudited quarterly consolidated financial information for the years ended December 31, 1978 and 1977:

	March 31,	June 30,	Sept. 30,	Dec. 31,
Year ended December 31, 1978				
Interest income	$25,506	26,585	27,669	30,527
Interest expense	13,008	13,159	13,418	15,564
Net interest income	12,498	13,426	14,251	14,963
Other operating income	2,424	2,619	2,936	3,198
Provision for possible loan losses	221	160	306	718
Other operating expenses	12,105	12,623	12,263	12,864
Income before income taxes and securities gains (losses)	$ 2,596	3,262	4,618	4,579
Income before securities gains (losses)	$ 3,208	3,452	3,916	4,233
Net income	$ 3,240	3,453	3,872	4,153
Earnings per share:				
Income before securities gains (losses)	$ 0.43	0.46	0.52	0.56
Net income	0.43	0.46	0.52	0.55
Year ended December 31, 1977				
Interest income	$22,273	22,853	22,931	24,210
Interest expense	10,695	10,880	10,837	11,767
Net interest income	11,578	11,973	12,094	12,443
Other operating income	3,007	2,175	2,015	2,175
Provision for possible loan losses	616	493	433	323
Other operating expenses	10,185	10,804	10,646	11,275
Income before income taxes, securities gains, and cumulative effect of change in accounting method	$ 3,784	2,851	3,030	3,020
Income before securities gains and cumulative effect of change in accounting method	$ 3,526	3,048	3,230	3,181
Income before cumulative effect of change in accounting method	$ 3,534	3,199	3,257	3,213
Net income	$ 6,630	3,199	3,257	3,213
Earnings per share:				
Income before securities gains and cumulative effect of change in accounting method	$ 0.36	0.31	0.33	0.36
Income before cumulative effect of change in accounting method	$ 0.36	0.33	0.33	0.36
Net income	$ 0.68	0.33	0.33	0.36

The independent auditors made a limited review of the 1978 and 1977 quarterly consolidated financial information in accordance with standards established by the American Institute of Certified Public Accountants. Since the independent auditors did not audit the quarterly consolidated financial information, they express no opinion on such information.

BANKERS TRUST OF SOUTH CAROLINA

QUARTERLY OPERATING RESULTS (unaudited)

The following is a summary of the consolidated quarterly operating results of Bankers Trust of South Carolina and its subsidiaries for the years ended December 31, 1978 and 1977. The total of the quarterly amounts may not equal the annual amounts due to rounding.

	1978 Quarters				1977 Quarters			
	Fourth	Third	Second	First	Fourth	Third	Second	First
	(dollars in thousands except per share data)							
Total interest income	$15,676	$14,661	$13,909	$12,876	$12,886	$12,192	$11,714	$11,432
Interest expense	5,486	5,040	4,891	4,733	4,860	4,762	4,593	4,374
Net interest income	10,190	9,621	9,018	8,143	8,026	7,430	7,121	7,058
Provision for loan losses	(600)	(600)	(600)	(600)	(600)	(600)	(600)	(600)
Operating income other than interest	2,344	2,301	2,495	2,339	2,302	2,115	2,306	2,199
Operating expenses other than interest and provision for loan losses	(8,910)	(8,813)	(8,804)	(8,089)	(8,268)	(7,812)	(7,693)	(7,559)
Income before income taxes and securities gains or losses	3,024	2,509	2,109	1,793	1,460	1,133	1,134	1,098
Income tax (expense) benefit	(823)	(666)	(559)	(386)	(183)	10	(21)	(5)
Income before securities gains or losses	2,201	1,843	1,550	1,407	1,277	1,143	1,113	1,093
Securities gains or losses, less related income tax effect	-	(431)	(15)	10	(87)	(16)	(6)	67
Net income	$ 2,201	$ 1,412	$ 1,535	$ 1,417	$ 1,190	$ 1,127	$ 1,107	$ 1,160
Per share data:								
Income before securities gains or losses	$ 1.01	$ .84	$ .71	$ .64	$ .59	$ .52	$ .51	$ .50
Net income	$ 1.01	$ .65	$ .70	$ .65	$ .55	$ .52	$ .51	$ .53

BAYBANKS, INC.

QUARTERLY DATA (UNAUDITED)--Summarized quarterly financial data for 1978 and 1977 are as follows:

	Year ended December 31	
	1978	1977
Income on earning assets		
First quarter	$ 41,742,500	$ 35,127,700
Second quarter	45,867,000	37,216,000
Third quarter	48,383,700	38,909,700
Fourth quarter	53,615,100	41,843,700
	$189,608,300	$153,097,100
Net interest income		
First quarter	$ 22,663,500	$ 19,565,700
Second quarter	24,438,300	20,793,100
Third quarter	25,677,400	21,364,800
Fourth quarter	27,861,000	22,495,200
	$100,640,200	$ 84,218,800
Provisions for possible loan losses		
First quarter	$ 1,425,400	$ 1,717,200
Second quarter	1,470,400	1,674,600
Third quarter	1,994,900	1,983,000
Fourth quarter	1,860,300	1,570,800
	$ 6,751,000	$ 6,945,600

	Year ended December 31	
	1978	1977
Net income		
First quarter	$ 3,605,400	$ 2,579,300
Second quarter	4,263,400	3,023,000
Third quarter	4,637,800	3,403,800
Fourth quarter	5,451,900	4,183,100
	$ 17,958,500	$ 13,189,200
Net income per share		
First quarter	$ 1.19	$ .85
Second quarter	1.41	1.00
Third quarter	1.53	1.12
Fourth quarter	1.80	1.39
	$ 5.93	$ 4.36
Net income per share assuming full conversion of debentures		
First quarter	$ 1.12	$ .81
Second quarter	1.32	.95
Third quarter	1.43	1.06
Fourth quarter	1.69	1.30
	$ 5.56	$ 4.12

FIRST CITY BANCORPORATION OF TEXAS, INC.

Quarterly Financial Results

The Company's consolidated operating results (unaudited) for each quarter of 1977 and 1978 are summarized as follows:

	1977			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(Dollars in Thousands)			
Interest income	$ 81,208	$ 84,693	$ 90,710	$101,530
Interest expenses	46,379	47,996	51,337	57,493
Net interest income	34,829	36,697	39,373	44,037
Provision for loan losses	3,456	3,471	3,831	5,149
Non-interest income	7,845	8,416	8,790	10,115
Non-interest expenses	27,301	29,240	30,659	32,126
Income before securities transactions	9,419	9,669	10,402	12,358
Net income	9,419	9,631	10,909	12,320
Earnings per share:				
Income before securities transactions	$ .85	$ .87	$ .94	$ 1.12
Net income	.85	.87	.99	1.11
Weighted average shares outstanding (in thousands)	11,068	11,071	11,074	11,076

	1978			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(Dollars in Thousands)			
Interest income	$109,696	$118,496	$122,450	$139,752
Interest expenses	65,637	72,838	74,315	89,596
Net interest income	44,059	45,658	48,135	50,156
Provision for loan losses	5,029	5,380	4,998	5,756
Non-interest income	9,738	9,879	10,157	10,699
Non-interest expenses	31,785	33,463	36,404	37,843
Income before securities transactions	12,457	12,553	13,056	14,030
Net income	12,434	12,337	12,223	13,637
Earnings per share:				
Income before securities transactions	$ 1.12	$ 1.13	$ 1.17	$ 1.25
Net income	1.12	1.11	1.09	1.22
Weighted average shares outstanding (in thousands)	11,077	11,114	11,192	11,217

SOUTHERN BANCORPORATION OF ALABAMA

QUARTERLY INCOME INFORMATION
(Unaudited)

The Company's unaudited consolidated operating results for each quarter of 1978 and 1977 are summarized as follows (dollars in thousands except per share amounts):

	1978			
	Three Months Ended			
	March 31	June 30	Sept. 30	Dec. 31
Interest income	$31,422	$34,407	$36,757	$39,695
Interest expense	16,801	18,956	20,467	23,532
Net interest income	14,621	15,451	16,290	16,163
Provision for loan losses	1,202	1,420	1,795	1,764
Income before income taxes and securities transactions	5,257	5,501	5,692	5,525
Income before securities transactions	3,951	4,111	4,490	4,952
Net income	3,906	4,056	4,436	4,659
Earnings per share:				
Income before securities transactions	$ .54	$ .56	$ .62	$ .68
Net income	.54	.55	.61	.64

	1977			
	Three Months Ended			
	March 31	June 30	Sept. 30	Dec. 31
Interest income	$24,436	$24,786	$26,413	$29,178
Interest expense	11,560	11,808	13,008	14,389
Net interest income	12,876	12,978	13,405	14,789
Provision for loan losses	1,196	981	965	1,400
Income before income taxes and securities transactions	4,547	4,662	4,966	5,281
Income before securities transactions	3,434	3,575	3,901	4,159
Net income	3,403	3,646	3,913	4,038
Earnings per share:				
Income before securities transactions	$ .47	$ .49	$ .53	$ .58
Net income	.47	.50	.53	.56

FIRST TENNESSEE NATIONAL CORPORATION

RESULTS OF OPERATIONS (UNAUDITED)

The summarized results of operations for the previous eight fiscal quarters are presented below:

	(Thousands)							
	Three Months Ended							
	December 31		September 30		June 30		March 31	
	1978	1977	1978	1977	1978	1977	1978	1977
Interest income	$46,439	$37,441	$42,386	$36,223	$40,890	$34,784	$38,940	$34,151
Less interest expense	22,948	18,343	20,471	17,341	19,995	16,613	18,990	16,038
Net interest margin	23,491	19,098	21,915	18,882	20,895	18,171	19,950	18,113
Non-interest income	6,649	6,930	5,921	6,372	6,172	6,636	7,819	6,297
Adjusted gross income	30,140	26,028	27,836	25,254	27,067	24,807	27,769	24,410
Non-interest operating expense	21,397	19,156	20,160	18,235	19,422	18,085	18,977	18,571
Provision for loan losses	2,019	1,973	1,464	2,570	1,127	2,593	1,641	2,533
Non-interest expense	23,416	21,129	21,624	20,805	20,549	20,678	20,168	21,104
Income before income taxes and securities gains (losses)	6,724	4,899	6,212	4,449	6,518	4,129	7,151	3,306
Applicable income taxes	1,821	1,245	1,761	1,020	1,911	896	2,292	552
Income before securities gains (losses)	4,903	3,654	4,451	3,429	4,607	3,233	4,859	2,754
Securities gains (losses), net of tax effect	1	69	4	(13)	10	-	-	(1)
Net income	$ 4,904	$ 3,723	$ 4,455	$ 3,416	$ 4,617	$ 3,233	$ 4,859	$ 2,753
Income per common share:								
Income before securities gains (losses)	$ .55	$ .41	$ .50	$ .39	$ .52	$ .36	$ .55	$ .31
Securities gains (losses), net of tax effect	-	.01	-	-	-	-	-	-
Net income	$ .55	$ .42	$ .50	$ .39	$ .52	$ .36	$ .55	$ .31
Dividend declared per common share	$ .15	$ .11	$ .15	$ .11	$ .15	$ .11	$ .11	$ .11

FIRST NATIONAL CHARTER CORPORATION
(Business Acquisition)

SUMMARY OF QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The following quarterly financial data summarizes the results of operations for the years ended December 31, 1978 and 1977, and have been restated to include the Farmers State Bank of Lockwood, Missouri (in thousands):

	1978				1977			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net interest earnings as reported	$11,549	$12,141	$12,379	$12,922	$9,558	$10,003	$10,429	$11,209
Effect of pooling of interests	138	-	-	-	120	168	162	141
Net interest earnings as restated	11,687	12,141	12,379	12,922	9,678	10,171	10,591	11,350
Income before securities gains or losses as reported	3,215	3,356	3,449	3,575	2,761	2,849	3,047	3,023
Effect of pooling of interests	38	-	-	-	27	28	27	28
Income before securities gains or losses as restated	3,253	3,356	3,449	3,575	2,788	2,877	3,074	3,051
Net income as reported	3,200	3,359	3,450	3,576	2,858	2,986	3,080	3,126
Effect of pooling of interests	38	-	-	-	27	28	27	28
Net income as restated	3,238	3,359	3,450	3,576	2,885	3,014	3,107	3,154
Earnings per share:								
Income before securities gains or losses as reported	$ .86	$ .88	$ .91	$ .94	$ .74	$ .76	$ .81	$ .81
Effect of pooling of interests	-	-	-	-	-	-	-	-
Income before securities gains or losses as restated	.86	.88	.91	.94	.74	.76	.81	.81
Net income as reported	.85	.89	.91	.94	.76	.80	.82	.84
Effect of pooling of interests	-	-	-	-	-	-	-	(1)
Net income as restated	.85	.89	.91	.94	.76	.80	.82	.83

EXAMPLES Interim financial data (restatement of previously reported data)

SOUTH CAROLINA NATIONAL CORPORATION

Quarterly Operating Results (Unaudited):

The following is a summary of the unaudited consolidated quarterly results of the Company for the years ended December 31, 1978 and 1977:

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	1978	1977	1978	1977	1978	1977	1978	1977
	(Dollars in Thousands, Except Per Share)							
Interest income	$22,454	$18,179	$23,092	$18,964	$25,734	$20,660	$27,445	$22,077
Interest expense	7,463	5,530	7,510	5,722	8,790	6,416	9,895	7,203
Net interest margin	14,991	12,649	15,582	13,242	16,944	14,244	17,550	14,874
Provision for possible credit losses	935	1,263	869	1,300	862	1,298	1,361	733
Non-interest income	3,425	3,336	3,679	3,225	3,496	3,058	4,332	3,940
Non-interest expense	14,143	12,242	14,242	12,594	13,825	12,882	14,579	13,854
Income before income taxes and securities gains (losses)	3,338	2,480	4,150	2,573	5,753	3,122	5,942	4,227
Applicable income taxes	831	361	1,189	330	1,974	694	2,035	1,262
Income before securities gains (losses)	2,507	2,119	2,961	2,243	3,779	2,428	3,907	2,965
Securities gains (losses) less related income taxes	(5)	(1)	2	5	(3)	20	(18)	10
Net income	$ 2,502	$ 2,118	$ 2,963	$ 2,248	$ 3,776	$ 2,448	$ 3,889	$ 2,975
Per Share								
Income before securities gains (losses)	$ .64	$ .54	$ .76	$ .58	$ .97	$ .62	$ 1.00	$ .76
Net income	$ .64	$ .54	$ .76	$ .58	$ .97	$ .63	$ 1.00	$ .76

Data previously reported for 1977 and the first three quarters of 1978 have been adjusted to reflect the restatement resulting from adoption of Financial Accounting Standards Board Statement No. 13 as discussed in Note 5.

All earnings per share data reflects the additional shares issued pursuant to the declaration of the stock dividend as discussed in Note 13.

LINCOLN FIRST BANKS INC.

Selected Quarterly Financial Data (Unaudited)

Presented below are financial data showings results for each 1978 and 1977 quarter. The results for the four quarters of 1977 are restated to reflect the retroactive application of Financial Accounting Standards Board Statement No. 13, "Accounting for Leases." These results are unaudited. In the opinion of management, all adjustments necessary for a fair presentation have been included. This information has been subjected to a limited review by the Company's Independent Accountants on a quarterly basis.

Three months ended:	March 31,		June 30,		September 30,		December 31,	
	1978	1977	1978	1977	1978	1977	1978	1977
	(In thousands except per share data)							
Interest income	$52,312	$45,823	$54,532	$46,994	$56,517	$48,307	$62,699	$51,155
Net interest income								
Originally reported	24,088	22,243	24,968	22,495	25,680	23,089	26,555	24,142
F.A.S.B. No. 13 adjustment	-	(451)	-	(446)	-	(442)	-	(437)
Restated	24,088	21,792	24,968	22,049	25,680	22,647	26,555	23,705
Provisions for possible loan and lease losses	1,760	2,441	2,184	1,830	2,315	2,388	3,271	2,576
Income before income taxes and securities transactions								
Originally reported	4,584	3,157	5,592	3,865	6,626	4,717	6,546	5,126
F.A.S.B. No. 13 adjustment	-	(111)	-	(108)	-	(105)	-	(81)
Restated	4,584	3,046	5,592	3,757	6,626	4,612	6,546	5,045
Applicable income taxes								
Originally reported	770	195	1,122	667	1,482	1,018	1,253	1,040
F.A.S.B. No. 13 adjustment	-	(55)	-	(40)	-	(87)	-	43
Restated	770	140	1,122	627	1,482	931	1,253	1,083
Income Before Securities Transactions								
Originally reported	3,814	2,962	4,470	3,198	5,144	3,699	5,293	4,086
F.A.S.B. No. 13 adjustment	-	(56)	-	(68)	-	(18)	-	(124)
Restated	3,814	2,906	4,470	3,130	5,144	3,681	5,293	3,962
Per share assuming full dilution								
Originally reported	.93	.72	1.08	.78	1.25	.90	1.29	.99
F.A.S.B. No. 13 adjustment	-	(.01)	-	(.02)	-	(.01)	-	(.02)
Restated	.93	.71	1.08	.76	1.25	.89	1.29	.97
Net securities gains (losses)	(163)	-	(422)	(40)	(370)	16	(1,088)	(244)
Net income								
Originally reported	3,651	2,962	4,048	3,158	4,774	3,715	4,205	3,842
F.A.S.B. No. 13 adjustment	-	(56)	-	(68)	-	(18)	-	(124)
Restated	3,651	2,906	4,048	3,090	4,774	3,697	4,205	3,718
Per share assuming full dilution								
Originally reported	.89	.72	.98	.77	1.16	.90	1.02	.93
F.A.S.B. No. 13 adjustment	-	(.01)	-	(.02)	-	(.01)	-	(.02)
Restated	.89	.71	.98	.75	1.16	.89	1.02	.91

EXAMPLES Adoption of FASB #13 (excerpt from note to financial statements)

NCNB CORPORATION

The financial statements for 1977 and prior years have been restated to reflect the change in accounting for capital leases. The cumulative effect of the change on prior years' earnings has been reflected as an adjustment of undivided profits in the accompanying statements of changes in shareholders' equity. The effect of the change on consolidated and bank net income and consolidated earnings per share for 1977 was as follows:

	Consolidated	North Carolina National Bank
	(Dollars in Thousands)	
Net income as previously reported	$23,770	$23,292
(Increase) decrease in expense items:		
Interest expense	(2,754)	(3,460)
Net occupancy expense	1,877	2,583
Equipment expense	253	253
Income tax expense	319	319
Net income as restated	$23,465	$22,987

	Consolidated
Earnings per common share, based upon weighted average shares outstanding:	
Net income as previously reported	$ 1.41
Effect of lease capitalization	(.02)
Net income as restated	$ 1.39

OMAHA NATIONAL CORPORATION

During 1978 the Company capitalized certain leases to comply with Financial Accounting Standards Board Statement No. 13. The statement's provisions were adopted on a retroactive basis to 1970. The effect on the financial statements was to decrease net income $96,000 and $99,000, respectively, and earnings per share $.06 and $.06, respectively, for the years ended December 31, 1978 and 1977.

FIRST TENNESSEE NATIONAL CORPORATION

Leases that were entered into prior to January 1, 1977, were capitalized during 1978 in accordance with Financial Accounting Standards Board Statement No. 13. The effect of the capitalization included in 1978 for prior years is not material.

PAN AMERICAN BANKSHARES, INC.

During 1978, Pan American adopted the provisions of Statement of Financial Accounting Standards No. 13 regarding capitalized leases. Accordingly, prior years' financial statements have been restated. The effect on the consolidated financial statements is not material.

ATLANTIC BANCORPORATION

In 1978, Atlantic and its subsidiaries changed their method of accounting for leases to comply with Statement of Financial Accounting Standards No. 13 (SFAS No. 13). The financial statements for the years 1976 and 1977 have been restated to reflect this change. The cumulative effect of the change on earnings through December 31, 1976 has been reflected as an adjustment of undivided profits in the accompanying Statements of Changes in Stockholders' Equity. The impact on years prior to 1976 was not material, hence, those years have not been restated. The effect of this change on the results of operations for 1978 and 1977 was not material.

U.S. BANCORP

The financial statements for 1977 have been restated in accordance with Financial Accounting Standards Board Statement No. 13, Accounting for Leases. The application resulted in capitalizing the present value of minimum lease payments and related obligations, with a reduction in deferred income taxes and consolidated retained earnings. The cumulative prior year effect was to reduce retained earnings at January 1, 1977, by $580,000. Net income for the year ended December 31, 1977, was reduced by $75,000 due to the accounting change.

EXAMPLE FASB #13—"As If" disclosure (excerpt from note to financial statements)

EXCHANGE BANCORPORATION, INC.

Exchange presently accounts for leases entered into prior to January 1, 1977 in accordance with generally accepted accounting principles established prior to issuance of FASB No. 13, "Accounting for leases." By 1981, Exchange will restate its financial statements to reflect the accounting for these leases in accordance with the statement. This change in accounting principles will result in certain leases being capitalized with an increase in the amounts reflected in Exchange's financial statements as follows:

	December 31	
	1978	1977
	(In Thousands)	
Property and equipment, net	$1,113	$1,298
Capital lease obligations	1,177	1,327
Net income	18	10

ZIONS UTAH BANCORPORATION

Three parcels of real property leased by Zions under agreements entered into prior to December 31, 1976, are reflected as operating leases. Under current accounting promulgations, these leases would be considered as capital leases. The following summarizes the information on these leases if the provisions of such promulgation had been applied retroactively:

	1978	1977
Asset amount that would be included in the balance sheet net of depreciation	$6,318,000	$7,099,000
Liability amount that would be included in the balance sheet	$8,584,000	$8,800,000

The effect on net income if leases had been capitalized is not material. By 1981 the Company will be required to capitalize these leases. Earlier capitalization is not required because of restrictions in the loan agreement on the $24,000,000 long-term senior notes payable.

EXAMPLES Lease commitments (excerpt from note to financial statements)

SOUTH CAROLINA NATIONAL CORPORATION

At December 31, 1978, in accordance with Statement No. 13, minimum rental commitments based on the remaining noncancellable lease terms without consideration of option renewals are summarized as follows:

	Capital			Operating		
	The Bank	Finance Subsidiaries	Consolidated	The Bank	Finance Subsidiaries	Consolidated
	(Dollars in Thousands)					
1979	$ 823	$ 99	$ 922	$ 803	$ 95	$ 898
1980	823	50	873	697	63	760
1981	823	17	840	522	38	560
1982	723	2	725	508	18	526
1983	415	2	417	487	10	497
1984 and thereafter	8,787	-	8,787	2,930	5	2,935
Total Minimum Obligation	12,394	170	12,564	$5,947	$229	$6,176
Less: Executory costs	2,519	-	2,519			
Net minimum obligation	9,875	170	10,045			
Less: Amounts representing interest	5,338	22	5,360			
Present value of net minimum obligation at December 31, 1978	$ 4,537	$148	$ 4,685			

FIRST & MERCHANTS CORPORATION

At December 31, 1978, minimum rental payments due under the above mentioned capital and operating leases were as follows (thousands of dollars):

	First & Merchants Corporation and Affiliate	
	Capital Leases	Operating Leases
1979	$ 868	$ 3,277
1980	843	2,903
1981	836	2,719
1982	368	1,588
1983	356	1,225
Later Years	2,741	6,654
Total Minimum Lease Payments	6,012	$18,366
Imputed interest (rates ranging from 3.81% to 18.16%)	(1,816)	
Present value of minimum lease payments	$4,196	

	Parent Company Only	
	Capital Leases	Operating Leases
1979	$ 468	$1,973
1980	475	1,895
1981	501	1,848
1982	47	858
1983	35	638
Later Years	-	821
Total Minimum Lease Payments	1,526	$8,033
Imputed interest (rates ranging from 4.92% to 18.18%)	(221)	
Present value of minimum lease payments	$1,305	

MARINE MIDLAND BANKS, INC.

Minimum future obligations on leases, which have not been reduced by immaterial sublease rentals, in effect at December 31, 1978 are scheduled:

	Marine Midland Banks, Inc. (Consolidated) (in thousands)	Marine Midland Bank (Consolidated)
Operating leases:		
1979	$ 2,485	$ 2,449
1980	2,329	2,295
1981	2,070	2,054
1982	1,880	1,873
1983	1,774	1,772
Later years	10,476	10,476
Total minimum obligation	$ 21,014	$ 20,919
Capital leases:		
1979	$ 16,844	$ 19,607
1980	16,653	19,416
1981	15,444	18,207
1982	14,382	17,145
1983	14,301	17,064
Later years	257,971	271,797
Total minimum obligation	335,595	363,236
Less: executory costs	119,412	119,412
Net minimum obligation	216,183	243,824
Less: amount representing interest	124,115	130,129
Present value of net minimum obligation at December 31, 1978	$ 92,068	$113,695

HUNTINGTON BANCSHARES INCORPORATED

The following summary reflects future minimum lease payments, by year, under capital leases and the future minimum rental payments, by year, required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 1978:

Year Ending December 31,	Capital Leases Premises	Operating Leases Premises	Operating Leases Equipment	Total Leases
1979	$ 429	$ 1,090	$1,069	$ 2,588
1980	429	1,068	1,014	2,511
1981	429	1,045	976	2,450
1982	429	929	736	2,094
1983	429	740	51	1,220
Later Years	5,727	13,516	39	19,282
Total Minimum Payments	$7,872	$18,388	$3,885	$30,145

The total minimum lease payments of $7,872,000 less imputed interest of $2,851,000 provides $5,021,000 as the present value of the net minimum lease payments as reflected in the Balance Sheet as Capital Lease Obligations. Total minimum lease payments have not been reduced by minimum sublease rentals of $6,013,000 due in the future under non-cancelable subleases.

The following shows the composition of the total rental expense for all operating leases except those with terms of a month or less that were not renewed:

	Year Ending December 31, 1978	1977
Minimum rentals	$2,199	$2,362
Contingent rentals	90	26
Total	$2,289	$2,388

The contingent rentals are based on additional usage of equipment in excess of a specified minimum.

EXAMPLES Mergers, acquisitions and divestitures (separate note to financial statements)

INDUSTRIAL VALLEY BANK AND TRUST COMPANY

CHANGES IN REPORTING ENTITIES

On December 31, 1977, the Bank acquired all of the common stock of a mortgage company for $179,000. This acquisition was accounted for using the purchase method. The Company had a net operating loss carryforward of $1.4 million and beginning in 1978, it is being amortized into income over a five year period. Included in the 1978 consolidated statement of income is amortization after applicable tax of $141,000, or $.06 per share.

In January 1978, the operations of a mortgage company owned by a title insurance affiliate were transferred to a direct affiliate of the Bank.

In March 1978, an affiliate acquired the stock of a real estate auction company for $850,000 in IVB stock. This transaction was recorded using the purchase method. Included in the 1978 consolidated statement of income is net income of $97,000 resulting from this acquisition or $.04 per share.

In December 1978, the Bank acquired for $7.5 million the stock of a commercial finance company, specializing in inventory financing with total assets of approximately $42 million. This transaction was recorded using the purchase method. Included in the 1978 consolidated statement of income is net income of $114,000 resulting from this acquisition or $.05 per share.

The results of operations from these purchases are not significant prior to acquisition.

Certain 1977 amounts have been reclassified to conform with 1978.

SUMITOMO BANK OF CALIFORNIA

Purchase of Nineteen Branches of The Bank of California

On December 5, 1977, the Bank acquired nineteen branches of The Bank of California for $19,900,000 in cash.

This acquisition has been accounted for as a purchase. Under generally accepted accounting principles, the excess of purchase price paid over the value of net assets acquired (goodwill) should be recorded as an asset and amortized to income over a period of not more than 40 years. In this instance, goodwill of $19,900,000 has been charged directly to surplus in the accompanying financial statements. This accounting treatment is in conformity with the accounting required by bank regulatory agencies. The accounting for goodwill continues to be a matter of controversy within the accounting profession, and the matter is under reconsideration by the Financial Accounting Standards Board, the chief accounting rule-making body. In the opinion of management, the treatment followed by the Bank is preferable to that under generally accepted accounting principles. Had goodwill been recorded as an asset and amortized, using a 40-year life, 1977 net income would have been reduced by $41,458 or $0.02 per share, and 1978 net income would have been reduced by $497,500 or $0.16 per share. Shareholders' equity would have been increased by $19,858,542 and $19,361,042 and reported as $77,830,052 and $81,685,187 as of December 31, 1977 and 1978, respectively.

The results of operations of the former nineteen branches of The Bank of California are included in the accompanying statement of income from the date of acquisition.

It is not possible to present a meaningful pro forma results of operations and earnings per share of the Bank as though the nineteen branches had been purchased on January 1, 1977. Such preparation would require arbitrary assumptions of allocations of various bank-wide elements of income and expense for the nineteen branches, for the periods of time prior to December 5, 1977, when they were operated as part of The Bank of California, which individually and in the aggregate, would materially affect such results. Significant elements of income and expense requiring such arbitrary allocations would include bank-wide data processing and other service expense, general bank-wide corporate overhead, and income derived from investment of the funds representing the excess of deposit liabilities over assets of the nineteen branches.

NATIONAL BANCSHARES CORPORATION OF TEXAS

Mergers and Acquisitions

In 1972, the Company acquired 53.39% of the outstanding capital stock of Randolph Bank of Commerce N.A. for $1,354,600 in cash and on December 31, 1977, the Company acquired the remaining 46.61% of the outstanding stock of Randolph in exchange for 41,241 shares of its Common Stock, valued at $1,261,982, in transactions accounted for as purchases. The excess cost over the fair value of the assets acquired ($1,105,295) is being amortized on a straight-line basis over forty years.

On January 31, 1978, the Company acquired all of the shares of capital stock of Meyerland Bank, Houston, in exchange for 166,752 shares of its Common Stock in a transaction accounted for as a pooling of interests.

On June 26, 1978, the Company organized National Bank of Commerce of Kerrville as a wholly-owned subsidiary with initial capitalization of $1,500,000. The bank opened for business on July 17, 1978.

On November 20, 1978, the Company organized Ingram Park Bank of Commerce N.A., San Antonio, as a wholly-owned subsidiary with initial capitalization of $1,250,000. The bank opened for business on December 4, 1978.

On November 27, 1978, the Company acquired all of the shares of capital stock of Brooks Field National Bank, San Antonio, in exchange for 375,000 shares of its Common Stock in a transaction accounted for as a pooling of interests.

On November 30, 1978, the Company acquired all of the shares of capital stock of Guaranty National Bank, Houston, for $7,200,000 in cash in a transaction accounted for as a purchase; accordingly, the operations of this bank are included in the consolidated financial statements from that date. The excess cost over the fair value of the assets acquired ($2,794,499) is being amortized on a straight-line basis over forty years.

The acquisitions of Meyerland Bank and Brooks Field National Bank were accounted for as poolings of interest. The 1978 operating income and net income of these banks, prior to the dates of acquisition, amounted to $5,697,939 and $1,165,076, respectively. The Company's income for 1977 as previously reported has been restated for the 1978 acquisitions as follows:

	As Previously Reported	Restated To Include 1978 Acquisitions
Total Operating Revenues	$44,017,886	51,078,878
Net income	5,201,669	6,512,726
Net income per share, restated for 25% stock split-up in 1978	$ 3.59	3.27

The following pro forma information sets forth the results of operations of the Company and Subsidiaries (including Meyerland and Brooks Field) for the years ended December 31, 1978 and 1977, as if the acquisition of Guaranty National Bank had occurred on January 1, 1977.

	1978	1977
Total Operating Revenues	$68,190,994	54,315,891
Income before securities transactions	8,540,198	6,495,077
Net income	8,478,987	6,511,969
Per share data:		
Income before securities transactions	$ 4.20	3.26
Net income	4.17	3.27
Weighted average number of shares outstanding	2,032,743	1,990,727

UNITED BANK CORPORATION OF NEW YORK

Acquisition

The Corporation acquired Hempstead Bank as of the close of business September 30, 1977, by the issuance of 615,333 shares of Series C convertible preferred stock in exchange for an equal number of shares of the outstanding common stock of Hempstead Bank and by payment of $32 per share for the remaining 384,667 outstanding shares of Hempstead Bank common stock.

This acquisition has been accounted for as a purchase transaction, and the accompanying consolidated statement of income for 1977 includes the results of Hempstead Bank for the three months ended December 31, 1977. The excess of par value (equivalent to approximate fair value) of the preferred shares issued and cash paid over the net assets of Hempstead Bank amounted to $6,962,003, which is included in other assets and is being amortized to expense over a forty-year period.

Assuming this acquisition had taken place on January 1, 1977, the consolidated results of operations on a pro-forma basis for 1977 would have been as follows (thousands omitted):

	1977
Operating income	$119,551
Income before securities transactions	19,014
Net income	19,440
Earnings per common share:	
Primary:	
Income before securities transactions	$ 2.99
Net income	$ 3.05
Fully diluted:	
Income before securities transactions	$ 2.78
Net income	$ 2.84

The Corporation has entered into an agreement in principle to acquire the stock of The Schenectady Trust Company, Schenectady, New York. The agreement provides that the Corporation will acquire the 484,000 shares of capital stock of The Schenectady Trust Company currently outstanding, by issuing, on a 1.6 for 1 basis, at least 387,202 shares, but not more than 580,800 shares, of a new series of convertible preferred stock with the balance to be acquired for cash at the rate of $42 per share. The preferred stock will have a par value of $20 per share, pay dividends at the rate of 6% of par value and will, commencing on a date two years after the date of original issue, be convertible into common stock at the rate of 1 for 1 adjusted for any stock dividends after July 1, 1977. The Corporation will enter into contracts with the holders of the new series of preferred stock which will provide that, at the option of the holder, the Corporation will purchase the preferred stock during the sixth through tenth year after the original issuance date at $26 per share.

During 1978 this acquisition was approved by the shareholders of The Schenectady Trust Company. On October 3, 1978, the Board of Governors of the Federal Reserve System denied the Corporation's application to acquire The Schenectady Trust Company. As of January 23, 1979, the New York State Banking Board had not as yet ruled on the Corporation's application. The Corporation intends to ask the Board of Governors to reconsider its denial of the application.

ALABAMA BANCORPORATION

PENDING BUSINESS ACQUISITIONS

Bancorporation has an agreement with the Board of Directors of The Bank of East Alabama in Opelika for the acquisition of substantially all of its assets and assumption of substantially all of its liabilities for $4,800,000 in cash. This agreement has been approved by said bank's shareholders and the appropriate regulatory authorities. This acquisition is to be consummated on February 28, 1979.

Bancorporation also has an agreement with the Board of Directors of Citizens National Bank of Limestone County in Athens for the acquisition of all the outstanding capital stock of said bank for approximately $2,344,000. This agreement is subject to approval by that bank's shareholders and the appropriate regulatory authorities.

REPUBLIC OF TEXAS CORPORATION

Discontinued Operations

When Republic was organized as a bank holding company in 1974, management was required by the Federal Reserve Board to dispose of those corporate assets (primarily assets of The Howard Corporation, a trusteed affiliate) not related to banking as defined under the Bank Holding Company Act. In 1977, the divestiture was substantially completed through the sale of most of the remaining nonbanking assets, consisting primarily of oil and gas interests and real estate holdings. Under the terms of the sale, Republic may be entitled to additional consideration. The amount of this additional consideration cannot be determined until the purchaser has realized net cash flow, as defined, of approximately $53,000,000 plus interest. Effective December 31, 1977, The Howard Corporation was liquidated and its remaining assets, consisting principally of cash, short-term investment securities, investments in banks and joint venture real estate, were distributed to Republic.

Presented below is a summary of discontinued operations for the years ended December 31, 1978 and 1977: ($ in thousands)

	1978	1977
Operations:		
Revenues	$ 153	$ 7,618
Costs and expenses	662	5,479
Income (loss) before taxes	(509)	2,139
Provision for income taxes	(244)	897
Income (loss) from discontinued operations	(265)	1,242
Provision for gain (loss) on disposition of assets related to discontinued operations:		
Sale for cash of nonbanking assets, primarily oil and gas interests and real estate holdings	-	40,524
Write-down of joint venture real estate properties to net realizable value	(800)	(1,000)
Demolition costs and write-off of the Medical Arts Building	-	(2,482)
	(800)	37,042
Provision for income taxes	(240)	11,031
Gain (loss) on disposition of assets	(560)	26,011
Income (loss) from discontinued operations	$(825)	$27,253

FIDELCOR, INC.

Discontinued Operations

On August 8, 1977, the Corporation sold the receivables and certain other assets of its consumer finance subsidiary, Fidelcor Financial Centers Corporation (FFCC), for $54,731,000 in cash. The sale resulted in a loss of $654,000 after tax effect of $737,000. Results of FFCC's operations for 1977 through the date of sale have been reported as "discontinued operations".

BANCAL TRI-STATE CORPORATION

Sale of Branches:

During 1977, the Bank agreed to sell thirty of its branches to three other banks. Nineteen branches were sold to Sumitomo Bank of California on December 5, 1977; eight to Wells Fargo Bank, N.A. on February 13, 1978; and three to Crocker National Bank on June 25, 1978.

Amounts included in the consolidated statement of income for 1978 and 1977 relating to the sales are as follows:

	1978	1977
	(In thousands of dollars)	
Pre-tax gain on sale of branches	$3,973	$20,598
After-tax gain on sale of branches	$2,988	$14,933
After-tax gain per share:		
Primary	$ .70	$ 4.24
Fully diluted	$ .61	$ 3.54

Pre-tax gains on the sale of branches have been restated to reflect retroactive application of FAS No. 13 as discussed in Note 2 and include gains resulting from the early termination of capital leases amounting to $712,000 in 1978 and $1,000,000 in 1977.

The branches sold had the following assets and liabilities on the dates the transactions were closed:

	Dec. 5, 1977	Feb. 13, 1978	June 25, 1978
	(In thousands of dollars)		
Assets:			
Cash and due from banks	$ 85,849	$26,926	$ 618
Loans	84,220	35,873	16,948
Bank premises and equipment	8,951	4,187	825
Other assets	632	203	118
Total Assets	$179,652	$67,189	$18,509
Liabilities:			
Demand deposits	$ 86,234	$31,579	$ 2,557
Savings deposits	59,081	22,807	9,447
Consumer time deposits	24,795	7,551	5,171
Other domestic time deposits	1,585	1,354	221
Total Deposits	171,695	63,291	17,396
Other liabilities	7,957	3,898	1,113
Total Liabilities	$179,652	$67,189	$18,509

FIRST TENNESSEE NATIONAL CORPORATION

Disposition of mortgage servicing contracts and certain assets. The Company announced during the fourth quarter of 1977 the signing of a contract with a subsidiary of Baldwin-United Corporation of Cincinnati, Ohio, for the sale of mortgage servicing contracts and certain other assets of Pence Mortgage Company, the Company's mortgage banking subsidiary located in Louisville, Kentucky.

The sale was finalized in the first quarter of 1978, resulting in an after-tax gain of $1,007,000, or $.11 per share. The sale ends the Company's active participation in the Louisville mortgage banking market. The Company continues its mortgage servicing activities through its wholly-owned subsidiary, First Tennessee Bank N.A. Memphis.

REPUBLIC NATIONAL BANK OF DALLAS

Discontinued Operations

The operations of the Medical Arts Building, which was designed for the medical and dental profession, and the write-off of the carrying value of the building, along with costs of demolition, are shown as discontinued operations.

EXAMPLES Disclosure of related party transactions

REPUBLIC NEW YORK CORPORATION

(Separate note to financial statements)

Transactions with Affiliates

Trade Development Bank Holding, S.A., a Luxembourg corporation ("TDBH"), owned indirectly approximately 60% and 62% of the Corporation's common stock at December 31, 1978 and 1977. The Corporation has been advised by TDBH that it may purchase up to an additional 200,000 shares of the Corporation's common stock in privately negotiated or open market transactions. If all such shares are purchased, TDBH would own indirectly approximately 65.9% of the Corporation's outstanding common stock. Edmond J. Safra indirectly owns approximatley 65% of TDBH and directly owns approximately 5.2% of the Corporation's common stock.

TDBH through its subsidiaries, primarily Trade Development Bank, a Swiss banking corporation, has balances and a broad range of business transactions with the Bank and its subsidiaries. These transactions and balances which fluctuate significantly during the year, are primarily related to mutual credit transactions in which either bank originates, participates or services the borrowings, deposit activities, precious metals and foreign exchange dealings, securities clearing transactions and sharing of certain foreign representatives and offices. Such transactions have been conducted in the normal course of business and on the same terms as those prevailing for comparable transactions with other customers or banks.

The following is a summary of balances with affiliates included in the consolidated statements of condition at respective year ends:

	1978	1977
Cash and demand accounts	$ 196,853	$ 412,366
Interest bearing deposits with banks	700,000	380,488
Loans	8,572,647	-
Deposits	$81,160,077	$12,185,995
Short term borrowings	13,179,600	6,166,549

EUROPEAN AMERICAN BANCORP

(Separate note to financial statements)

Transactions with Related Parties

EAB is owned by six European banks (Shareholder Banks). EABTC and EABC are wholly owned subsidiaries of EAB and have common management. Certain overhead expenses are allocated between EABC and EABTC, using a method based primarily upon the actual hours devoted by officers and employees to the respective companies. In the ordinary course of business, Shareholder Banks and their affiliates have balances and business transactions with EAB's subsidiaries. These balances and transactions, which fluctuate significantly during the year, have been reflected in the accompanying financial statements.

As of December 31, 1978, the more significant balances were approximately $3 million included in cash and due from banks, $102 million in interest bearing deposits with banks, $606 million in due to customers, compared to approximately $9 million, $92 million and $505 million, respectively, as of December 31, 1977.

For the year 1978, interest income of approximately $10 million and interest expense of approximately $21 million were attributable to transactions with related parties, compared with approximately $9 million and $16 million, respectively, for 1977.

In addition, included in the foreign exchange position at December 31, 1978 are various foreign exchange contracts with the Shareholder Banks and their affiliates.

HERITAGE BANCORPORATION

(Separate note to financial statements)

Related Party Transaction

In 1976 a subsidiary bank entered into an agreement with a corporation in which a director is a principal. Pursuant to the agreement, the bank sold to the corporation property which had been acquired from an unrelated borrower through foreclosure proceedings.

The corporation paid $1,000,000, the bank's carrying value for the property, by entering into a noninterest bearing purchase money mortgage. The corporation is developing the property by constructing single unit homes and as each unit is sold a portion of the purchase price is allocated for the reduction of the mortgage loan. At December 31, 1978 the balance of this loan was $715,736.

Pursuant to the agreement, the bank agreed to loan to the corporation up to $1,300,000 for construction purposes. On several occasions the agreement has been amended and as of January 1979, the corporation may borrow for construction purposes a maximum of $2,800,000. Homes on 60 lots have been completed and sold. During the term of the agreement, the bank has advanced sums of money and repayments have been made, leaving a balance outstanding on the construction mortgage as of December 31, 1978 of $2,253,033. Interest on this loan, which is payable only out of the profits from the sales of the homes at a rate of not less than the bank's prime rate to a maximum of 10 percent, has been accrued to the extent of $242,358 of which, as of December 31, 1978, the bank has received $68,000.

It is the opinion of the Company's management that this transaction is on terms more favorable to the bank than those offered by other purchasers with whom the bank had negotiations.

AMERICAN NATIONAL BANK AND TRUST COMPANY OF CHICAGO

(Separate note to financial statements)

Transactions with Affiliates

The Bank has not entered into any transactions with Walter E. Heller International Corporation or any of its subsidiaries in which the terms and conditions were less favorable to the Bank than they would have been for similar transactions with other persons.

DOMINION BANKSHARES CORPORATION

(Separate note to financial statements)

Related Party Transactions

In the ordinary course of business, the Corporation and its affiliates enter into transactions with related parties. During October, 1977, the Board of Directors approved the leasing of banking facilities from a partnership in which a director of the Corporation had a 30% interest and the director of an affiliate bank had a 15% interest. The initial lease term is for twenty years at an annual rental approximating $114,000. In November, 1977, the Board of Directors approved the purchase of a parcel of land for $200,000 from a director of the Corporation for the construction of a branch bank building. Both directors of the Corporation mentioned above were presidents and directors of affiliate banks.

In the normal course of business, the Corporation's affiliates have made loans to directors and executive officers of the Corporation and its affiliates. At December 31, 1978 and 1977, the direct loans to directors and executive officers approximated $7,363,000 and $8,100,000, respectively. Indirect loans to directors and executive officers (loans to companies in which directors and executive officers have at least a 10% interest) approximated $40,797,000 and $44,800,000 at December 31, 1978 and 1977, respectively.

CALIFORNIA FIRST BANK

(Separate note to financial statements)

Banking Relationships with Affiliates

The Bank, in the ordinary course of business, purchases acceptances, participates in loans, accepts deposits, and enters into other banking transactions with affiliated companies, including its parent, The Bank of Tokyo, Ltd. In 1978, the Bank paid service commissions to the San Francisco and Los Angeles agencies of The Bank of Tokyo, Ltd., for services in connection with processing international transactions; these commissions amounted to approximately 4% of other expenses in 1978 and in 1977. During the two years ended December 31, 1978, average loan and deposit levels with all affiliates approximated 5% of total assets. In the opinion of management, such deposits, loan participations and acceptances were made at prevailing rates, terms and conditions.

RIGGS NATIONAL BANK OF WASHINGTON, D.C.

(Separate note to financial statements)

Transactions with Directors

As in prior years the Bank has made, and expects to make in the future in the normal course of business, loans to many of its Directors and their associates on the same terms, including interest rates and collateral, as those prevailing for comparable transactions with others. Such loans do not involve more than a normal risk of collectibility, nor do they present other unfavorable features.

The following table reflects outstanding balances of loans to Directors and their associates as of November 8, 1978 (the peak day during 1978 for transactions with Directors and their associates) and December 31, 1978.

	Nov. 8, 1978	Dec. 31, 1978
Loans to Directors	$ 7,118	$ 7,178
Loans Guaranteed by Directors	26,235	10,207
Loans to Companies in which Directors were Principal Stockholders	17,494	24,440
Total Loans to Directors & Associates	$ 50,847	$ 41,825
Total Loans	$1,118,462	$1,154,042
Percentage of Total Loans	4.55%	3.62%

PROVIDENT NATIONAL CORPORATION

(Separate note to financial statements)

Related Party Transactions

The Corporation, through its wholly-owned subsidiary Provident Realty, Inc, ("PRI"), provides management and advisory services to and has representation on the Board of Directors of Independence Mortgage Trust (the "Trust"). PRI received management fees from the Trust in the amount of $1,080,000 and $1,200,000 in 1978 and 1977, respectively. In 1977, the Corporation charged-off as a loan loss $2,500,000 representing the remaining balance of a loan made to the Trust in connection with PRI's appointment as investment advisor to the Trust.

The Corporation had loans of $8,004,000 and $10,739,000 at December 31, 1978 and 1977, respectively, directly to directors, entities in which directors owned more than 10% of the voting interest and executive officers. These loans were made at prevailing interest rates and terms.

At December 31, 1978, Reliance Insurance Company, a wholly-owned subsidiary of RFS, owned 8.6% of the outstanding common stock of the Corporation.

SUBURBAN BANCORPORATION

Other Transactions

In the ordinary course of business, directors and officers (and their affiliates) of Bancorporation were customers of, and had other transactions with Bancorporation. Suburban has a policy of providing home and consumer loans to officers and employees at favorable interest rates, with advantages of 1% for mortgage and 2% to 4% for consumer loans, and considers this policy to be sound business practice. Other loan transactions with directors and officers were made on substantially the same terms as those prevailing at the time for comparable loans to other persons and neither involved more than normal risk of collectibility nor presented other unfavorable features. Such loans had outstanding balances, which approximate the average balances of $30,985,000 at December 31, 1978 and $19,988,000 at December 31, 1977. Included in those amounts are loans of two directors and their affiliates which exceeded 5% of stockholders' equity and were outstanding at December 31, 1978, and December 31, 1977, with balances on those dates aggregating $12,739,000 and $11,949,000, respectively. None of these loans individually exceeded the banks' lending limits.

CITY NATIONAL CORPORATION
(Excerpt from loan footnote)

In the normal course of business, the Bank has loans to officers and Directors as well as loans to companies and individuals affiliated with or guaranteed by officers and Directors of the Company and the Bank. In the opinion of management, such loans are consistent with prudent banking practices and are within applicable regulatory bank lending limitations.

EXAMPLES Discussion of wage and price controls (excerpt from letter to stockholders)

BANKS OF IOWA, INC.

During the month of October, the Administration released voluntary wage and price controls. The wage standard applies to banks in the same manner as to other businesses. Inasmuch as uncertainty exists as to whether the Council on Wage and Price Stability will prescribe price or profit standards for financial institutions, the possible effect on future bank earnings of steps taken by the Administration to curb inflation constitutes an unknown quantity.

FIRST NATIONAL BOSTON CORP.

Though we are opposed to mandatory wage and price controls, we believe our compensation plan for 1979 to be in compliance with the voluntary standards issued by the President's Council on Wage and Price Stability last December.

ATLANTIC BANCORPORATION

Finally, the President's Wage and Price Control Program, which affects many more than just those in the banking industry, was announced in October. Specific definition and application of the program to banks has been slow in coming, hence, it is difficult to estimate the full impact of the guidelines on Atlantic. We will carefully monitor the program and its provisions, as well as the other two pieces of legislation mentioned, for its application to Atlantic.

SECTION H

Management's Discussion of Operations and Other Data

SEC registrants and banks subject to the securities disclosure requirements of the Securities Exchange Act of 1934 are required to supply information of "material significance to investors in appraising the results shown" in their annual reporting. This information is required for SEC registrants by existing instructions to Form 10-K, Guide 22 of the "Guides for Preparation and Filing of Registration Statements under the Securities Act of 1933" as amended by ASR 159 and Guide 1 of the "Guides for Preparation and Filing of Reports and Registration Statements under the Securities Exchange Act of 1934." The guides are not rules of the SEC. However, they represent policies and practices followed by the SEC's Division of Corporation Finance and Office of the Chief Accountant in administering the disclosure requirements of the Federal securities laws. For banks, this information is required by the proxy rules and the instructions to Form F-2. Most commercial banks and bank holding companies in the survey included the summary of operations and management's discussion and analysis of the summary of operations in their annual shareholders' reports.

Guides 61 and 3, issued by the SEC in 1976, require extensive statistical disclosures to be made in SEC filings by banks and bank holding companies. All or part of the statistical information may be presented in management's discussion and analysis of the summary of operations if, in management's judgment, such a presentation is meaningful. Approximately 85% (86% in 1977) of the survey companies included all or a portion of these statistical disclosures in their management's discussion and analysis of the summary of operations.

Otherwise, the information should be presented in the "description of business" section of the filing. Although the guides are not applicable to annual reports to shareholders, the following tables indicate that many companies included selected portions of the statistical information called for by the guides in their annual reports.

Tables 67 and 68 reveal the extent to which companies in the survey included a summary of operations, management's discussion and analysis of the summary of operations and the quarterly range of stock prices and dividend data for 1978 and 1977 in their annual reports to shareholders.

Table 67. Summary of Operations and Management's Discussion and Analysis

	Commercial Banks		Multi-bank Holding Companies		One-bank Holding Companies	
	78	77	78	77	78	77
Summary of operations was:						
Included	82%	70%	99%	94%	98%	95%
Not included	18	30	1	6	2	5
	100%	100%	100%	100%	100%	100%
Management's discussion and analysis section was:						
Included	78%	65%	99%	94%	98%	95%
Not included	22	35	1	6	2	5
	100%	100%	100%	100%	100%	100%

Table 68. Quarterly Stock Prices and Dividend Data

	Commercial Banks		Multi-bank Holding Companies		One-bank Holding Companies	
	78	77	78	77	78	77
Quarterly stock prices and dividend data was:						
Included	73%	61%	98%	97%	92%	96%
Not included	27	39	2	3	8	4
	100%	100%	100%	100%	100%	100%

Presentations of tax-equivalent amounts

SEC Staff Accounting Bulletin No. 26, prohibits the use of tax-equivalent adjustments to interest income in the summary of operations. However, SAB No. 26 states that it may be appropriate to use amounts or to present yields on a tax-equivalent basis in the text and statistical tables included in management's discussion and analysis of the summary of operations.

Table 69 indicates the percent of survey companies that included tax-equivalent presentation in their reports and the location of such presentation. Table 70 indicates the frequency of disclosure reconciling the tax-equivalent presentation to other reported financial data.

Table 69. Tax-Equivalent Presentations*

	Commercial Banks	Multi-bank Holding Companies	One-bank Holding Companies
Tax-equivalent presentation included in:			
Summary of operations	15%	14%	11%
Management's discussion	18	47	46
Other report text	15	39	38
Tax-equivalent presentation not made	52		5
	100%	100%	100%

*Information was not accumulated for 1977

Table 70. Reconciliation of Tax-Equivalent Presentations*

	Commercial Banks	Multi-bank Holding Companies	One-bank Holding Companies
Percent of reports that included tax-equivalent presentation that also included:			
Reconciliation to summary of operations	16%	7%	5%
Reconciliation to income statement	19	24	20
Narrative descriptions	16	13	17
Tax rate disclosure	28	33	23
Number of reports including presentations	32	123	60

*Information was not accumulated for 1977

Statistical disclosures

Table 71 indicates the percent and number of survey companies including selected statistical information called for by the Guides. Table 4 indicates the location of the Guide disclosures and shows that the statistical information was disclosed in a variety of locations in the annual report.

Table 71. Selected Statistical Disclosures Included

	Commercial Banks		Multi-bank Holding Company		One-bank Holding Company		Total	
	78	77	78	77	78	77	78	77
Reports including selected statistical disclosures:								
Percent of total survey reports	61%	63%	91%	93%	92%	93%	83%	86%
Number of reports	41	36	112	112	58	69	211	217

Table 72. Statistical Disclosure Location

	Commercial Banks		Multi-bank Holding Company		One-bank Holding Company		Total	
	78	77	78	77	78	77	78	77
Reports which included statistical disclosures located in:								
Footnote only	5%	3%		2%	3%	3%	2%	2
Management's discussion and analysis of the summary of operations	22	5	26%	3	19	6	23	4
Other report text only	32	17	19	14	35	6	26	12
Combination of:								
Management's discussion and analysis and other report text	7	3	26	13	17	8	20	10
Footnotes, management's discussion and analysis and other report text	34	72	29	68	26	77	29	72
	100%	100%	100%	100%	100%	100%	100%	100%

Table 73 indicates for the survey reports which included selected statistical disclosures, the percentage that included a particular item specified by the Guides.

Table 73. Statistical Disclosures Included in Reports

	Commercial Banks		Multi-bank Holding Companies		One-bank Holding Companies		Total Companies	
	78	77	78	77	78	77	78	77
Percent of reports including statistical disclosures that disclosed:								
Distribution of assets, liabilities and shareholders' equity:								
Amounts and percentages	24%	19%	44%	38%	52%	32%	42%	33%
Amounts only	54	50	49	53	41	56	48	53
Percentages only			3				1	
	78	69	96	91	93	88	91	86

(*continued*)

Table 73. Statistical Disclosures Included in Reports (continued)

	Commercial Banks		Multi-bank Holding Companies		One-bank Holding Companies		Total Companies	
	78	77	78	77	78	77	78	77
Foreign-percentages of assets and liabilities	5	3	10	7	21	16	12	9
Investment portfolio:								
Investment portfolio amounts	22	50	36	41	50	52	37	46
Investment maturity	71	78	80	75	81	85	78	79
Weighted average yield	44	56	80	66	78	68	72	65
Yield includes tax adjustment	32	*	59	*	57	*	53	*
Loan portfolio:								
Outstanding loans by categories	78	81	88	78	95	75	88	77
Loan maturity	20	19	40	35	53	45	40	35
Amount of loans due after one year-fixed and floating rates	20	22	42	34	45	41	38	34
Non-performing loans	66	56	73	74	86	74	75	71
Summary of loan loss experience:								
With allocation of reserve	15	11	23	27	28	23	23	23
Without allocation of reserve	42	70	43	49	43	58	43	54
	57	81	66	76	71	81	66	77
Deposits:								
Daily average deposits	71	67	67	79	67	75	68	76
Maturity of certificates of deposit over $100,000	20	19	42	34	35	33	35	31
Return on equity and assets	71	61	71	71	79	68	73	69
Interest ratio and interest differential:								
Analysis of net interest earnings	63	72	92	84	90	83	86	82
Rate/volume analysis	42	31	63	61	66	61	59	56
Includes foreign operations	7	14	13	20	21	29	14	22
Foreign operations:								
Daily average balances for foreign operations	7	8	15	12	28	26	17	16
Foreign assets by geographical locations	7	11	13	13	33	27	17	17
Foreign revenue and income before tax by geographic location	5	3	9	10	22	14	12	10
Commitments and lines of credit	49	42	46	46	41	51	45	47
Number of reports included in this table	41	36	112	112	58	69	211	217

*Information was not accumulated for 1977.

Table 74 indicates the location within the annual report to shareholders of each item specified in the Guides.

Table 74. Location of Statitstical Disclosures

	Commercial Banks		Multi-bank Holding Companies		One-bank Holding Companies		Total Companies	
	78	77	78	77	78	77	78	77
Distribution of assets, liabilities and shareholders' equity:								
Management's discussion and analysis	29%	8%	28%	8%	17%	10%	25%	9%
Other report text	71	92	70	89	83	90	74	90
Combination of management's discussion and analysis and other report text			2	2			1	1
Combination of footnotes, management's discussion and analysis and other report text				1				
	100%	100%	100%	100%	100%	100%	100%	100%
Number of reports including disclosures	32	25	107	99	54	61	193	185
Investment portfolio:								
Footnotes only	26%	13%	10%	7%	13%	14%	14%	11%
Management's discussion and analysis	36	13	44	20	32	21	39	19
Other report text	29	42	34	46	48	44	37	45
Combination of management's discussion and anaylsis and other report text		3	6	9	2	5	3	6
Combination of footnotes, management's discussion and analysis and other report text	9	29	6	18	5	16	7	19
	100%	100%	100%	100%	100%	100%	100%	100%
Number of reports including disclosures	31	31	97	94	54	63	182	188
Loan portfolio-non-performing loans:								
Footnotes only	48%	40%	29%	30%	39%	43%	35%	36%
Management's discussion and analysis	21	20	24	17	31	16	26	17
Other report text	7	15	13	22	6	16	10	19
Combination of footnotes, management's discussion and analysis and other report text	24	25	34	31	24	35	29	28
	100%	100%	100%	100%	100%	100%	100%	100%
Number of reports including disclosures	27	20	82	83	50	51	159	154
Loan portfolio-other than non-performing loans:								
Footnote only	50%	17%	37%	25%	35%	18%	38%	21%
Management's discussion and analysis	28	23	32	13	18	20	27	17
Other report text	19	47	22	43	40	43	27	44
Combination of management's discussion and analysis and other report text			1	3	4		2	2
Combination of footnotes, management's discussion and analysis and other report text	3	13	8	16	3	19	6	16
	100%	100%	100%	100%	100%	100%	100%	100%
Number of reports including disclosures	36	30	99	91	55	56	190	177
Summary of loan loss experience:								
Footnotes only	19%	37%	12%	15%	15%	21%	14%	20%
Management's discussion and analysis	39	19	44	18	46	23	44	20
Other report text	39	37	39	55	34	47	37	50
Combination of footnotes, management's discussion and analysis and/or other report text	3	7	5	12	5	9	5	10
	100%	100%	100%	100%	100%	100%	100%	100%
Number of reports including disclosures	23	27	74	83	41	53	138	163

Table 74. Location of Statistical Disclosures (continued)

	Commercial Banks		Multi-bank Holding Companies		One-bank Holding Companies		Total Companies	
	78	77	78	77	78	77	78	77
Deposits:								
Footnotes only			1%	5%	5%		2%	3%
Management's discussion and analysis	35%		38	10	21	19%	33	12
Other report text	59	92%	48	78	67	70	55	77
Combination of management's discussion and analysis and other report text	3		10	5	5	3	7	4
Combination of footnotes, management's discussion and analysis and other report text	3	8	3	2	2	8	3	4
	100%	100%	100%	100%	100%	100%	100%	100%
Number of reports including disclosures	29	13	81	65	42	37	152	115
Return on equity and assets:								
Footnotes only						2%		1%
Management's discussion and analysis	30%	14%	27%	8%	26%	24	27%	13
Other report text	70	86	64	91	70	74	67	85
Combination of management's discussion and analysis and other report text			9	1	4		6	1
	100%	100%	100%	100%	100%	100%	100%	100%
Number of reports including disclosures	29	22	79	80	46	47	154	149
Interest rates and interest differential:								
Footnotes only			1%	1%	2%	2%	1%	1%
Management's discussion and analysis	60%	44%	56	32	51	37	55	35
Other report text	37	52	37	61	38	56	37	58
Combination of management's discussion and analysis and other report text	3	4	6	5	9	5	7	5
Combination of footnotes, management's discussion and analysis and other report text				1				1
	100%	100%	100%	100%	100%	100%	100%	100%
Number of reports including disclosures	30	25	102	94	53	57	185	176
Foreign operations:								
Footnote only		40%	13%	5%	13%	5%	11%	9%
Management's discussion and analysis	60%	20	25	6	29	24	30	16
Other report text	20	40	50	61	29	43	38	50
Combination of footnotes, management's discussion and analysis and/or other report text	20		12	28	29	28	21	25
	100%	100%	100%	100%	100%	100%	100%	100%
Number of reports including disclosures	5	5	24	18	24	21	53	44
Commitments and lines of credit:								
Footnotes only	82%	73%	66%	71%	64%	71%	69%	71%
Management's discussion and analysis	14	7	11	8	12	9	12	8
Other report text	4	20	17	11	20	14	15	14
Combination of footnotes, management's discussion and analysis and/or other report text			6	10	4	6	4	7
	100%	100%	100%	100%	100%	100%	100%	100%
Number of reports including disclosures	20	15	52	52	24	35	96	102

EXAMPLES **Summary of operations**

BANKERS TRUST NEW YORK CORPORATION

Six-Year Consolidated Statement of Income (in thousands)

	Year Ended December 31					
	1978	1977	1976	1975	1974	1973
Interest income						
Interest and fees on loans	$1,229,558	$ 922,206	$ 858,466	$ 966,249	$1,241,975	$ 766,572
Interest on investment securities						
Taxable	47,049	43,282	43,868	38,124	39,656	40,037
Exempt from federal income taxes	26,153	26,730	39,780	36,907	35,740	31,469
Interest on trading account securities	16,071	14,513	28,946	21,044	21,066	10,599
Interest on interest-bearing deposits with banks	294,462	214,745	224,096	265,948	314,743	175,943
Interest on federal funds sold and securities purchased under resale agreements	113,970	61,995	28,485	23,334	51,271	45,209
Lease financing	17,633	13,062	9,257	6,998	3,715	906
Total interest income	1,744,896	1,296,533	1,232,898	1,358,604	1,708,166	1,070,735
Interest expense						
Deposits						
In domestic offices	263,886	191,499	221,011	330,281	404,112	247,081
In foreign offices	625,232	461,756	426,744	453,995	677,629	377,200
Short-term borrowings	342,026	201,231	147,554	129,180	247,746	151,534
Long-term debt	27,047	20,617	21,175	21,959	21,459	11,375
Total interest expense	1,258,191	875,103	816,484	935,415	1,350,946	787,190
Net interest income	486,705	421,430	416,414	423,189	357,220	283,545
Provision for loan losses	80,000	90,000	100,000	111,000	68,266	31,869
Net interest income after provision for loan losses	406,705	331,430	316,414	312,189	288,954	251,676
Other income						
Trust and custodian income	56,361	49,888	46,381	40,376	45,787	38,006
Foreign exchange income	26,209	16,110	15,229	16,905	17,453	1,820
Acceptances and letters of credit commissions	22,910	24,085	22,027	20,129	10,726	6,673
Credit card commissions	16,516	17,284	16,444	15,032	10,938	8,524
Trading account profits and commissions	9,762	2,674	13,152	8,775	1,237	3,033
Other	47,137	40,917	35,962	30,665	25,833	40,345
Total other income	178,895	150,958	149,195	131,882	111,974	98,401
Salaries	195,293	181,650	167,620	158,890	144,769	124,532
Employee benefits	51,650	47,071	44,934	39,677	34,112	28,197
Occupancy expense, net	53,117	53,594	52,971	48,356	40,515	33,117
Furniture and equipment expense	19,473	17,349	16,090	16,543	15,098	13,687
Other real estate expense, net	20,343	10,764	8,166	3,237	-	-
Other	114,998	100,518	99,212	94,924	78,335	61,688
Total other expenses	454,874	410,946	388,993	361,627	312,829	261,221

	Year Ended December 31					
	1978	1977	1976	1975	1974	1973
Income before income tax expense and securities transactions	130,726	71,442	76,616	82,444	88,099	88,856
Income tax expense	48,189	11,004	20,292	19,347	17,633	22,061
Income before securities transactions	82,537	60,438	56,324	63,097	70,466	66,795
Securities gains (losses)	(1,930)	(1,161)	(1,625)	(1,442)	(1,427)	(11,539)
Applicable tax benefit (expense)	1,164	777	578	881	770	6,247
Net income	$ 81,771	$ 60,054	$ 55,277	$ 62,536	$ 69,809	$ 61,503
Net income applicable to common stock	$ 67,934	$ 51,779	$ 47,777	$ 60,536	$ 69,809	$ 61,503
Earnings per common share						
Income before securities transactions	$ 6.47	$ 4.95	$ 4.64	$ 5.81	$ 6.74	$ 6.33
Net income	$ 6.40	$ 4.91	$ 4.54	$ 5.76	$ 6.68	$ 5.83
Cash dividends declared per common share	$ 3.00	$ 3.00	$ 3.00	$ 3.00	$ 3.00	$ 3.00
Average common shares outstanding (in thousands)	10,616	10,540	10,512	10,512	10,456	10,554

FIRST NATIONAL CINCINNATI CORPORATION

SUMMARY OF OPERATIONS (thousands of dollars)

	Year Ended December 31				
	1978	1977	1976	1975	1974
Interest Income	$106,457	$ 84,970	$ 69,603	$ 67,586	$ 82,965
Interest Expense	53,184	40,529	32,008	31,868	47,734
Net Interest Income	53,273	44,441	37,595	35,718	35,231
Provision for Loan Losses	1,415	1,308	890	1,026	1,196
Net Interest Income after Provision for Loan Losses	51,858	43,133	36,705	34,692	34,035
Other Income:					
Trust Income	4,822	4,554	3,945	3,407	3,313
Other	8,134	7,119	6,118	5,732	4,665
Total Other Income	12,956	11,673	10,063	9,139	7,978
Other Expense:					
Salaries, Pension and Other Employee Benefits	19,135	16,829	13,859	12,307	11,513
Other	14,764	13,058	10,883	10,121	9,522
Total Other Expense	33,899	29,887	24,742	22,428	21,035
Gain on Sale of Banking Premises	1,452	-0-	-0-	-0-	-0-
Income before Income Tax and Securities Gains (Losses)	32,367	24,919	22,026	21,403	20,978
Applicable Income Tax	11,584	8,585	7,603	7,500	7,675
Income Before Securities Gains (Losses)	$ 20,783	$ 16,334	$ 14,423	$ 13,903	$ 13,303
Net Securities Gains (Losses) after Income Tax Effect	(1,130)	214	11	2	-0-
Net Income	$ 19,653	$ 16,548	$ 14,434	$ 13,905	$ 13,303

	Year Ended December 31				
	1978	1977	1976	1975	1974
Per Share (Based on 3,600,000 shares outstanding):					
Income Before Securities Gains (Losses)	$ 5.77	$ 4.54	$ 4.01	$ 3.86	$ 3.70
Net Income	5.46	4.60	4.01	3.86	3.70
Cash Dividends	2.15	1.95	1.80	1.70	1.45
Selected Average Balances (millions)					
Total Assets	$1,496.3	$1,368.6	$1,168.3	$1,089.6	$1,094.4
Interest Earning Assets	1,261.3	1,163.0	980.4	921.2	921.1
Total Deposits	1,119.2	1,017.4	856.6	746.7	739.4
Total Capital	127.8	117.2	109.3	101.1	93.7

GIRARD COMPANY

Five-Year Summary of Operations

	1978	1977	1976	1975	1974
	(in thousands)				
Interest income	$276,627	$224,594	$216,956	$228,538	$273,844
Interest expense	170,527	133,312	131,176	148,388	205,669
Net interest income	106,100	91,282	85,780	80,150	68,175
Loan loss provision	12,752	14,385	22,218	10,046	9,528
Net interest income after loan loss provision	93,348	76,897	63,562	70,104	58,647
Other income	28,785	28,146	28,064	23,154	22,588
Other expenses	91,367	83,183	80,689	74,702	68,779
Income before income taxes and securities gains (losses)	30,766	21,860	10,937	18,556	12,456
Applicable income taxes	6,798	3,069	(662)	2,279	(1,507)
Income Before Securities Gains (Losses)	23,968	18,791	11,599	16,277	13,963
Securities gains (losses), net of income taxes	(918)	(427)	(2,705)	116	92
Net Income	$ 23,050	$ 18,364	$ 8,894	$ 16,393	$ 14,055
Per Share Data*					
Primary					
Income before securities gains (losses)	$ 4.82	$ 3.81	$ 2.35	$ 3.30	$ 2.83
Net income	4.63	3.72	1.80	3.33	2.85
Cash dividends declared	1.715	1.62	1.62	1.62	1.62
Shareholders' equity (year-end)	38.01	35.25	33.23	33.04	31.34
Average shares outstanding (in thousands)	4,975	4,931	4,928	4,928	4,926
Assuming conversion of capital notes					
Income before securities gains (losses)	$ 4.30	$ 3.42	$ 2.15	$ 2.95	$ 2.55
Net income	4.14	3.34	1.68	2.97	2.56
Shareholders' equity (year-end)	37.00	34.56	32.80	32.61	31.15
Average shares outstanding (in thousands)	5,713	5,682	5,688	5,748	5,748

*Adjusted for two-for-one stock split effective June 1, 1978.

EXAMPLES Managements discussion and analysis

BOATMEN'S BANCSHARES, INC.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE CONSOLIDATED SUMMARY OF OPERATIONS

Net income for 1978 amounted to $12,032,000 and exceeded net income for 1977 of $9,685,000 by 24%. Net income in 1977 exceeded 1976 income of $8,817,000 by 10%.

Net Interest Income

While interest rates rose sharply in the two year period ending December 31, 1978, the most significant factor contributing to increased earnings in that period was an increase in average earning assets to $1,137,200,000 in 1978 from a level of $863,000,000 in 1976. The major portion of this increase represented loans which increased $131,700,000 or 20% in 1978 and $95,800,000 or 17% in 1977. The higher level of earning assets in the two year period resulted in increases in net interest income of $8,100,000 in 1978 and $3,800,000 in 1977. Earnings in 1978 benefited for the full year from the acquisition of the correspondent bank business of The National Stock Yards National Bank which made a major contribution to a $116,200,000 increase in average demand deposits in that year, while earnings in 1977 benefited from this acquisition for only six weeks.

Provision for Loan Losses

The provision for loan losses in 1978 amounted to $3,460,000 and exceeded net charge-offs by over $1,300,000, increasing the reserve for loan losses to .95% of net outstanding loans at December 31, 1978 from .89% at December 31, 1977. The net provision for loan losses in 1977 amounted to $3,174,000 and exceeded net charge-offs in 1977 by approximately $1,000,000. Net loan losses as a percentage of net loans amounted to .26% in 1978 and .30% as of 1977. The corporation's net loan losses have been consistently lower than that of peer group corporations.

Non-Interest Income

Non-interest revenues increased approximately $2,200,000 over 1977. Over $500,000 of this increase resulted from trust fee revenues. Service charges on deposit accounts and charge card fees made up the major portion of the balance. The $2,600,000 increase in 1977 over 1976 resulted from increased trust fee revenue and higher service charge revenues.

Non-Interest Expense

A high percentage of the non-interest expense increase of $6,300,000 in 1978 represented the inclusion of the Expenses of the acquisition of the correspondent bank business of The National Stock Yards National Bank for a full year as compared to six weeks in 1977. Other important factors were development, startup and equipment expenses relating to the installation of a new check processing system and processing equipment in The Boatmen's National Bank of St. Louis, and development, programming and promotional expenses incident to the introduction of automatic transfer accounts.

In 1977, non-interest expenses increased approximately $5,000,000 over 1976. Increased personnel, higher payroll taxes and normal salary adjustments were responsible for a $2,000,000 increase in employee costs. Net occupancy and equipment expenses increased $1,700,000 resulting from higher depreciation, lease rentals and maintenance costs. These increases primarily reflect the occupancy of new quarters by The Boatmen's National Bank of St. Louis in the fourth quarter of 1976 and Boatmen's Bank and Trust Co. of Kansas City in the first quarter of 1977. Printing, postage and supplies increased $268,000 due to higher volume and general price increases. Expenses associated with credit card activity rose $426,000, reflecting a significant increase in volume.

Income Tax Expense

The change in the effective tax rate for the period from 1976 through 1978 primarily reflects the change in the percentage of tax exempt interest income as related to total taxable income.

FIRST NEW MEXICO BANKSHARE CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF CONSOLIDATED SUMMARY OF OPERATIONS

All earnings of First New Mexico Bankshare Corporation come from bank operations as we do not have any non-banking subsidiaries.

Interest and Fees on Loans

During 1978 our average loans increased 15.53%, from 1977, and our interest and fees on loans increased 19.74%. Our average yield rose from 9.65% to 10.00%. In 1977 our average loans increased 13.74% and our loan income rose 14.51%. In 1976 our average yield was 9.59% and average loans increased 7.62% from 1975.

Interest on Investment Securities--Taxable

In 1978 our taxable investment interest increased 39.30% to $9,818,816 from $7,048,457 in 1977. During this same period our average investment in taxable securities increased $28,763,195 or 25.71% and our yield rose from 6.11% to 6.85%. In 1977 our average investment increased $2,998,663 and our average yield decreased to 6.11% from a 1976 yield of 6.77% causing our income to decrease 6.90%. In 1976, as compared to 1975, our average investment increased $27,495,397 or 33.79% and our income rose 37.35%. The average yield in 1975 was 6.55%.

Interest on Investment Securities--Tax Exempt (Fully Taxable Equivalent)

Our 1978 interest income increased 4.71% over 1977 while our average investment remained substantially the same. Our average yield in 1978 was 8.85% compared to 8.46% in 1977 and 8.69% in 1976. The interest income increased 14.02% in 1977 from 1976 and increased 14.97% in 1976 from 1975.

Other Interest Income

This is interest on federal funds sold. Average federal funds sold increased $10,339,080 or 24.48% from 1977. The average yield in 1978 was 8.01% compared to 6.35% in 1977 and the income rose 57.14% to $4,212,090. In 1977 income was down 1.98% and average federal funds sold was down 23.39%. The smaller percentage decrease in income was accounted for by the increase in yield from 4.96% to 6.35%. In 1976, compared to 1975, income decreased 17.38% and average funds sold decreased 4.06%; however, the average yield in 1976 was 4.96% down from 5.76% in 1975.

Interest on Deposits

Banking laws regulate the percentage of interest that can be paid on savings accounts. Total interest paid on deposits amounted to 43.27% of our total income in 1978; 42.09% in 1977 and 43.04% in 1976. Our average rate paid on time deposits (excluding savings deposits) in 1978 was 6.90%; 6.08% in 1977 and 6.30% in 1976.

Interest on Short-term Borrowings

Short-term borrowings include Federal funds purchased, securities sold under agreement to repurchase and U.S. Treasury Tax and Loan notes. Average short-term borrowings in 1978 were up $10,478,789 from 1977 or 55.45%. The increase in cost was $1,056,762 or 89.87%. This larger percentage increase in cost was cuased by an increase in the rate paid to 7.60% from 6.22% in 1977. The average rate paid in 1976 was 4.87%.

Interest on Long-term Borrowings

The average long-term borrowings decreased $107,103 in 1978 from 1977; however, the average rate paid increased to 8.77% from 7.28% in 1977 resulting in an increased cost of $182,756. Our interest cost in 1977 increased $47,761 or 5.37% from 1976. The average rate in 1977 was 7.28% up from the 7.09% paid in 1976.

Net Interest Income

Our favorable trend in the dollar spread between interest income and interest expense continued in 1978. Earnings before Security Gains in 1978 increased $1,864,167 or 20.5% to $10,974,477 from $9,110,310 in 1977. Earnings before Security Gains in 1977 increased $955,894 or 11.7% from $8,154,416 in 1976. In 1976 Earnings before Security Gains increased $653,645 or 8.7% from $7,500,771 in 1975. Net interest income in 1978 was $44,308,977 after a tax-equivalent adjustment of $7,564,740 for tax-exempt interest. In 1977, net interest income was $38,858,767 after a tax-equivalent adjustment of $7,307,242. Net interest income in 1976 was $34,059,978 after a tax-equivalent adjustment of $6,408,599.

Provision for Loan Losses

The provision for loan losses for 1978 increased to $1,957,307 from $1,661,405 in 1977. Our net loan losses were $1,795,500 and the remaining provision of $161,807 was used to increase our Reserve for Loan Losses to $4,959,448. Our net loan loss in 1977 was $1,516,954 and in 1976 was $1,562,978. Our provision for loan losses as a percentage of average outstanding loans (net of unearned interest) was .359% in 1978; .352% in 1977 and .377% in 1976.

Other Income

Other income includes trust department income, service charges on deposit accounts, and other service charges, commissions and fees. In 1978 other income increased $1,302,817 or 19.43% to $8,007,793. In 1977 other income increased $433,931 or $6,704,976. In 1976 other income increased $920,265 or 17.20% to $6,271,045. All of these increases are accounted for by increased volume and some increases in fees.

Salaries and Employee Benefits

In 1978 salaries and employee benefits increased $1,746,015 or 12.24% to $16,011,497. We had a 4% increase in number of employees and the balance of the increase is accounted for by a small increase in benefits cost, increased payroll taxes and the need to raise salaries to keep pace with inflation. Employee benefits increased 21.20% or $377,141 during 1977 due to increased costs in our Hospital and Surgical Plan and Retirement Plan. Salary costs increased 12.50% for a combined increase of 13.74%. In 1976 these costs rose 16.92%

Other Expense

Other expense includes such items as advertising, postage, occupancy, stationery and printing, machine rentals (including computer rental), equipment depreciation, accounting, FDIC insurance, other insurance, telephone and donations. In 1978 other expense increased $1,357,445 or 11.51% to $13,148,749. In 1977 other expense increased 18.35% and in 1976, 18.54%. These increases were largely brought about by our increasing size and steadily increasing prices of goods and services.

Income Taxes

Our effective income tax rate for 1978 increased to 19.5% from 16.2% in 1977. Our interest (fully taxable equivalent) on non-taxable securities increased 4.7% or $717,194; however, our net income increased 15.5%. Our effective income tax rate was 17.2% in 1976.

Growth

The Average Consolidated Statement of Condition for the last five years appears on pages 18 and 19 of this report. The following figures taken from these statements show the average growth in your company during the last four years:

	Average 1978	Average 1974	Dollar Increase	Percentage Increase
Taxable Securities	$ 140,640,066	71,923,803	68,716,263	95.5%
Non-taxable Securities	180,054,336	112,172,288	67,882,048	60.5
Gross Loans	560,466,434	381,907,496	178,558,938	46.8
Demand Deposits	342,284,273	238,521,793	103,762,480	43.5
Savings and Other Time Deposits	378,129,709	209,166,488	168,963,221	80.8
Certificates of Deposit over $100,000	208,925,575	165,590,387	43,335,188	26.2
Total Deposits	929,339,557	613,278,668	316,060,889	51.5
Total Stockholders' Equity	67,079,696	42,823,526	24,256,170	56.6
Total Resources	1,052,916,541	689,234,393	363,682,148	52.8

EQUIMARK CORPORATION

DISCUSSION AND ANALYSIS OF THE CONSOLIDATED SUMMARY OF OPERATIONS

Introduction

The results of operations of Equimark Corporation for the period 1974 through 1978 reflect three principal stages of development in this five-year period of the Corporation's history. First, results of operations for years prior to 1977 include those of three nonbank subsidiaries for periods held to the dates of their disposition. These subsidiaries included a money market dealer and a consumer finance company, both included on a fully consolidated basis, and a general equipment leasing company that has been included as a discontinued operation. Second, a consolidation of the Corporation's activities toward more traditional banking areas took place in 1975 and 1976. This consolidation was accomplished with the sale of the equipment leasing and consumer finance subsidiaries in 1975 and the money market subsidiary in 1976. Third, an expansion of the Corporation's earning asset base occured during 1977 through traditional banking areas, primarily in loans and investment securities. This expanded level of earning assets was maintained through year-end 1978.

Results of operations of the equipment leasing subsidiary for the year ended December 31, 1974 and the period in 1975 to the date of its sale in April have been classified as discontinued operations in the Consolidated Summary of Operations.

General Considerations

Interest income and interest expense during 1974 were affected by the high interest rate structure which prevailed throughout the year. The decline in interest income and expense during 1975 resulted primarily from a reduction of loan volumes from 1974 levels and reduced short-term rates earned and paid. During this period, the provision for possible loan losses and the level of nonearning assets also increased from 1974 amounts. The June, 1976 disposition of the money market subsidiary also reduced the level of money market and trading income. Operating results for 1978 and 1977 reflected an increase in the Corporation's earning asset base, partially offset by a narrower net interest rate spread.

Summary of Operating Results

For the five-year period ended December 31, 1978, consolidated income from continuing operations before investment securities transactions declined from $2.92 per share in 1974, when the unusually high interest rate structure prevailed, to $1.96 per share in 1975 and to $1.70 in 1976. Since 1976 consolidated income from continuing operations before securities transactions has increased to $1.87 per share in 1977 and to $2.06 per share in 1978.

The 1975 decline in operating income reflected a lower level of net interest income due to a reduction in average earning assets. This reduction occurred as loan volumes of Equibank and Equimark Commercial Finance Company were reduced based on management's restriction of lending during the last half of 1974 and early 1975. The 1976 decline in earnings was primarily attributable to an increase in average nonearning assets. These nonearning assets reduced consolidated net income by $0.97 per share in 1976, compared to $0.47 per share in 1975. Consolidated net income for the years 1974 and 1975 include Equimark's share of the loss from operations of the equipment leasing subsidiary, shown as a discontinued operation. The after-tax loss on the disposition in 1975 of this subsidiary was $1,839,000, or $0.44 per share. Equimark's share of these operating losses, included in discontinued operations, were $0.57 per share in 1974 and $0.12 per share to the date of sale in 1975. The increase in 1977 and 1978 operating earnings is primarily attributable to additional net interest income earned as a result of higher earning asset volumes, partially offset by an increased provision for possible loan losses.

Net Interest Income

The major component of consolidated income from continuing operations before investment securities transactions is net interest income, the excess of interest income over interest expense. Net interest income is affected by changes in interest rates earned and paid as well as the volume and mix of assets and liabilities. In addition, movement of market rates has a significant impact on both rates earned and paid.

Net interest income for 1974 reflected both the Corporation's expanded earning asset base, primarily due to the earning asset levels in the Corporation's nonbank subsidiaries, and the high interest rate structure which existed throughout the year. During 1975 and 1976, lower loan volumes, reduced securities activities resulting primarily from the disposition of the money market subsidiary, and a lower interest rate structure reduced net interest income. The increase in net interest income during 1977 and 1978 was due to the expansion of the earning asset base of the Corporation in the traditional banking functions of lending and securities investments. Management's expansion of the investment securities portfolio during the second half of 1977 was achieved by attracting time deposits of municipal authorities and large denomination negotiable certificates of deposits. This expanded asset level was maintained during 1978 and added to net interest income and net income at a reduced interest rate spread of 1.83 percent for 1978, compared to 2.02 percent for 1977.

Interest income during 1974 reflects the increased volume of earning assets previously discussed. Interest income was also favorably affected by the higher-than-normal short-term interest rates during 1974. The sharp decline in interest rates during 1975 and 1976, together with reduced money market volumes caused primarily by the disposition of the money market subsidiary in June, 1976, accounted for the reduction of money market instruments interest income during this period. Trading account interest income increased through 1975, as additional funds were invested to take advantage of short-term trading opportunities. Although trading account income declined during 1976 due to the disposition of the money market subsidiary, trading account income of Equibank during 1976 and 1977 increased from prior years. Equibank's trading account interest income declined during 1978 because management reduced trading account activity due to rising interest rates, which reduced profit-taking opportunities.

The increase in investment securities interest income throughout the five-year period is primarily related to the increase in the level of Equibank's investment portfolio. After a volume-related increase in 1974, loan income declined during 1975 and 1976. This decline was due to lower average volumes, a lower interest rate structure and the unfavorable impact of nonearning assets. The increases in loan income during 1977 and 1978 were primarily volume related, particularly in the commercial, consumer and mortgage categories. Nonaccrual loan levels were also significantly reduced during 1977 and 1978, which had a favorable effect on interest income.

Interest expense for 1974 reflects the increased volume of deposits and borrowed funds required for the expanded earning asset base, and the higher-than-normal short-term interest rates which prevailed during 1974. During 1975 and 1976, interest expense declined substantially, due to the sharp drop in short-term interest rates and due to the June, 1976 sale of the money market subsidiary. Interest expense increased during 1977, in line with the required funding of the expanded earning asset base combined with a slightly increased interest rate structure. The sharp increase in interest rates during the last half of 1978, combined with the increased level of time deposits and borrowed funds, was primarily responsible for the increase in interest expense which occured during 1978.

Provision for Possible Loan Losses

The provision for possible loan losses increased from 1974 to 1975 because of higher loan chargeoffs and management's decision to increase the ratio of the reserve for possible loan losses to outstanding loans. The reduction in the provision for possible loan losses during 1976 is related to reduced loan chargeoffs, although the ratio of the reserve to outstanding year-end 1976 loans was further increased to 1.06 percent. The increase in the provision during 1977 and 1978 resulted from the increased level of loans combined with a higher level of chargeoffs. The provision for 1978 was particularly affected by the increased level of net loan chargeoffs, which are discussed in more detail in the "Notes to Financial Statements" under "Reserve for Possible Loan Losses" on page 49.

Other Income

The general upward trend of other income during the five-year period was affected by the elimination, in 1975, of data center services income; by an increase, in 1976, in demand deposit account service charges and the gain on the sale of the money market subsidiary; and, in 1977 and 1978, by a lower level of trading account and money market profits.

Other Expenses

Other expenses, including salaries and employee benefits, increased annually through 1978.

Salaries and employee benefits increased throughout the five-year period due to personnel additions required to handle higher volumes of activity and to provide expanded bank services. In addition, merit increases and inflationary pressures, together with additional costs of employee benefits, served to increase personnel costs.

Other expense increases also included the effect of the expansion of banking premises and equipment, together with corresponding increases of general and administrative expenses, which include supplies, services purchased and advertising costs. The 1976 and 1977 increases include higher occupancy costs related to the centralization of headquarters and operations functions in the Equibank Building, together with the costs of upgrading data processing equipment. The 1978 increase includes the expansion of retail and commercial banking facilities. Other expenses for 1978 also include the recapture of prior costs associated with real estate held for resale through ongoing sales of certain condominium properties acquired during the past few years, which have partially offset increases in other expense categories.

Income Taxes

The 1974 provision for income taxes resulted from a shift in emphasis from tax-exempt to taxable earning assets, consistent with the Corporation's commitment to a highly liquid position throughout the year. During 1975 and 1976, aggregate income tax benefits arose as tax-exempt income exceeded income before income taxes on a financial statement basis, due primarily to the increases in the provision for possible loan losses, reduced loan volumes and the impact of nonearning assets. The reduced tax benefit in 1977 and the minor provision in 1978 were primarily due to the increase in income before income taxes related to the increase in net interest income. Income taxes for the years 1977 and 1978 are more fully explained in the "Notes to Financial Statements" on pages 52 and 53.

J.P. MORGAN & CO., INCORPORATED

Management's discussion and analysis of the condensed consolidated statement of income

The consolidated earnings of J.P. Morgan & Co. Incorporated reflect primarily the operations of its principal subsidiary, Morgan Guaranty Trust Company of New York. They come from four main sources: net interest earnings, trading activities, trust and agency services, and "other operating income, mainly fees and commissions."

Net interest earnings, or the difference between total interest income (stated on a taxable-equivalent basis) and total interest expense, in any given period are affected by the average volume of earning assets (mainly loans, investments, and interest-bearing deposits at banks) and the average yield earned thereon, the average volume of deposits and borrowings on which interest is paid and the average rate of interest paid thereon, and the average volume of sources of funds on which interest is not paid (mainly demand deposits and stockholders' equity).

Trading activities include principally the functions of dealer in and underwriter of securities of the U.S. government and its agencies and of states and political subdivisions, and dealer in foreign exchange. Earnings from these activities are affected by market conditions, by ability to anticipate market developments, and by volume of activity. Such earnings tend to be more volatile than those from the other sources.

Trust and agency services are those performed as trustee for employee benefit plans and personal trusts and estates, investment advisor, corporate trustee, custodian, stock transfer agent, and registrar. Earnings from these functions are affected chiefly by the value of assets managed, volume of activity, and level of fees charged.

"Other operating income, mainly fees and commissions" includes income from various services not included elsewhere, foreign currency translation gains or losses, the company's share in the profits or losses of companies in which its percentage of ownership is 20% or more but not more than 50%, and gains and losses on the disposition of investments in such companies. The factors affecting "other operating income" vary with the individual components of this aggregate item.

Provision for possible credit losses, which can vary sharply from period to period, is typically a significant expense item related to lending and lease financing.

"Other noninterest operating expenses," the main component of which is employment costs, affect earnings from each of the four main sources.

Net securities gains or losses result mainly from sales of securities from the investment portfolio. Net gains or losses from such sales, after income tax effect, are added to or subtracted from income before securities gains (losses) in determining net income. The income tax effect of net securities gains or losses depends on the type of security, the entity in which and the period for which held, and the taxing jurisdiction(s) to which the transaction is subject.

There follows an explanation of significant year-to-year changes occurring in 1976, 1977, and 1978 in the principal sources of earnings and the principal categories of expense.

Net interest earnings

The principal factors that contributed to the year-to-year changes in net interest earnings can be seen in the accompanying tables. In both 1977 and 1978 substantial increases over the respective preceding years in the average volume of interest-earning assets more than offset year-to-year declines in the net yield experienced on total interest-earning assets, with the use of noninterest-cost funds taken into account. The increases in asset levels in both years occurred principally in loans at offices outside the U.S. and interest-bearing deposits at banks.

Net interest earnings in 1977 and 1978 were affected by the nonaccrual, or accrual at reduced rates, of interest on certain loans. If interest had been accrued at the originally agreed rates on all such loans, exclusive of portions charged off, net interest earnings in 1977 would have been greater by approximately $27.1 million, or 4%, and the average yield on loans would have been 7.82% instead of 7.63%; net interest earnings in 1978 would have been greater by approximately $19.6 million, or 2.6%, and the average yield on loans would have been 9.18% instead of 9.06%.

The table "Net interest earnings and the income statement" reconciles the computation of net interest earnings with the condensed consolidated statement of income and shows the amount by which tax-exempt interest income has been adjusted to a taxable-equivalent basis.

Income from trading activities

The results obtained from the trading and underwriting of U.S. government and municipal securities deteriorated sharply in 1977 from the $29.4 million of profits and commissions earned in 1976. Because adverse price movements which occurred in bond markets had not been expected, losses of $3.4 million were incurred. In 1978, although market conditions again were difficult, judgment of price trends was more successful and profits and commissions in the year amounted to $6.1 million.

Foreign exchange trading income increased by $6.4 million, or 18.9%, in 1977 over 1976 and by $16.1 million, or 40%, in 1978 over 1977. Successive increases in volume, occasioned in major part by the growing need of clients to buy and sell currencies in connection with their international activities, contributed significantly to the gains in income. Particularly in 1978, volatility in exchange markets tended to magnify the potential both for profit and for loss in exchange operations.

Trust and agency income

Fee income from trust and agency services increased in 1977 by about $6.3 million, or 6.2%, and in 1978 by nearly $9 million, or 8.3%. The 1977 increase resulted from a higher volume of business in personal trusts and estates, foreign-office investment advisory accounts, corporate trusteeships, and custody and securities handling, which more than offset the effect of a decline in the market value of assets managed, the basis of most trusteeship and investment advisory fees. In 1978 the aggregate of agency fees--for services including stock transfer, registrarships, corporate trusteeships, and custody--rose, mainly as a result of increased volume. Income from personal trusts and estates rose, chiefly because of an increase, effective at mid-year, in the statutory fee schedule applicable to those services, but also because of an increased volume of business. Fee income from employee benefit trust services declined.

"Other operating income"

The aggregate "other operating income, mainly fees and commissions" declined by $1.2 million, or 1.4%, in 1977, compared with 1976. In 1978 it rose by $33.7 million, or 39.1%, chiefly because of the $19.3 million in pretax gains realized from the sale of a minority interest in an Argentine bank and the sale of a building in Paris.

Provision for possible credit losses

Declines of approximately $20.6 million, or 30.2%, in 1977 and $14 million, or 29.4%, in 1978 in the amount provided for possible credit losses reflected management's judgment as to the provision needed in order to maintain the allowance for possible credit losses at a level adequate to absorb probable losses from loans and lease financing. Size and risk characteristics of the loan and lease financing portfolio were factors in judgment of the appropriate level for the allowance and therefore in determination of the amount of the provision.

"Other noninterest operating expenses"

Salaries and employee benefits increased by approximately $12 million, or 5.9%, in 1977 over 1976, mainly because of generally higher salary levels. The increase in 1978 was approximately $34.9 million, or 16.1%, with nearly two-thirds of the rise occurring in offices outside the U.S., where the decline in the exchange value of the dollar had a severe impact since most salaries and benefits outside the US. are paid in foreign currencies. The number of employees in offices in the U.S. increased by 165 during the year, and the number in offices outside the U.S. increased by 190.

"Other operating expenses" were higher by $10.3 million, or 8.6%, in 1977 and by $26.8 million, or 20.5%, in 1978. Increases in the prices of materials and services purchased for use in operations, and increased needs for such materials and services, accounted for the rises in both years, these factors being more pronounced in 1978 than in 1977.

Applicable income taxes

While income before income taxes and securities gains (losses) declined by $15.1 million, or 4%, in 1977 and rose by $60.3 million, or 16.8%, in 1978, applicable income taxes declined by $31.5 million, or 18.2%, in 1977 and rose by $11.7 million, or 8.3%, in 1978. Applicable income taxes as a percentage of income before income taxes and securities gains (losses) declined from 46.2% in 1976 to 39.4% in 1977 and 36.5% in 1978. Factors in the decline included higher amounts of tax-exempt interest income and increases in the proportion of foreign-source income.

Net securities losses

The year-to-year increases in net securities losses--approximately $4.2 million in 1977 and $18.4 million in 1978--resulted from sales of investment securities, principally tax-exempt obligations, which had declined in market value as a result of the rising trend in interest rates. The sales were made to permit reinvestment of the proceeds at higher yields.

Net interest earnings

Dollars in millions; interest and average rates on a taxable-equivalent basis

	1978			1977			1976		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Interest-earning assets									
Interest-bearing deposits at banks	$ 6,103	$ 446.7	7.31%	$ 5,240	$ 332.9	6.35%	$ 4,255	$ 291.8	6.86%
U.S. Treasury securities	585	45.4	7.76	1,530	112.7	7.37	1,534	116.5	7.59
Securities of states and political subdivisions	1,458	210.6	14.44	1,293	183.5	14.19	887	134.6	15.17
Other securities (including trading account securities)	1,207	103.9	8.60	1,094	89.0	8.14	1,171	90.0	7.69
Federal funds sold and securities purchased under agreements to resell	859	68.4	7.96	337	18.1	5.38	215	10.0	4.65
Loans at offices in the U.S.									
Commercial and industrial	3,423	329.5	9.63	3,178	241.9	7.61	3,335	253.1	7.59
Financial-institution	1,452	117.4	8.09	1,257	78.0	6.21	1,216	78.9	6.49
Broker and dealer	1,155	100.0	8.66	1,406	86.8	6.17	1,157	66.0	5.70
All other	1,139	104.5	9.17	1,019	82.8	8.13	1,195	99.5	8.33
Loans at offices outside the U.S.	8,614	777.8	9.03	7,063	572.3	8.10	5,988	521.0	8.70
Other interest-earning assets	189	27.2	14.00	146	20.2	10.14	138	8.2	5.36
Total interest-earning assets	26,184	2,331.4	8.90	23,563	1,818.2	7.72	21,091	1,669.6	7.92

	1978			1977			1976		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Sources of funds used to finance interest-earning assets									
Sources on which interest is paid									
Time deposit in offices in the U.S.	4,696	346.8	7.39	3,042	159.4	5.24	2,529	133.4	5.27
Deposits in offices outside the U.S.	12,842	894.2	6.96	12,097	732.7	6.06	10,489	682.6	6.51
Federal funds purchased and securities sold under agreements to repurchase	2,429	192.1	7.91	3,150	172.0	5.46	2,987	151.5	5.07
Other borrowings at offices in the U.S.	1,057	87.2	8.25	466	26.8	5.74	540	30.2	5.60
Other borrowings at offices outside the U.S.	438	31.8	7.25	243	16.6	6.83	204	16.2	7.94
Long-term debt	548	33.4	6.09	572	34.9	6.10	506	29.7	5.87
Total sources on which interest is paid	22,010	1,585.5	7.20	19,570	1,142.4	5.84	17,255	1,043.6	6.05
Sources on which interest is not paid (including demand deposits, other non-interest-bearing liabilities, and stockholders' equity)	4,174	-	-	3,993	-	-	3,836	-	-
Total sources of funds used to finance interest-earning assets	$26,184	1,585.5	6.05	$23,563	1,142.4	4.85	$21,091	1,043.6	4.95
Net yield on interest-earning assets			2.85%			2.87%			2.97%
Net interest earnings		$ 745.9			$ 675.8			$ 626.0	

Interest and average rate for securities of states and political subdivisions, other securities (including trading account securities), commercial and industrial, financial-institution, and "all other" loans at offices in the U.S., and "other interest-earning assets" have been adjusted to a taxable-equivalent basis. The applicable tax rate used to adjust tax-exempt interest to a taxable-equivalent basis was approximately 61% for 1978, 62% for 1977, and 61% for 1976.

Net interest earnings and the income statement

	In millions		
	1978	1977	1976
Taxable interest income	$2,000.6	$1,546.4	$1,470.2
Tax-exempt interest income, adjusted to taxable-equivalent basis	330.8	271.8	199.4
Less: interest expense	1,585.5	1,142.4	1,043.6
Net interest earnings	745.9	675.8	626.0
Less: adjustment of tax-exempt interest income	182.9	152.5	110.6
Interest income net of interest expense	563.0	523.3	515.4
Less: provision for possible credit losses	33.6	47.6	68.2
Interest income net of interest expense and provision for possible credit losses	529.4	475.7	447.2
Noninterest operating income	299.2	230.9	252.2
Total operating income net of interest expense and provision for possible credit losses	828.6	706.6	699.4
Less: other noninterest operating expenses			
Personnel expenses	251.0	216.1	204.1
Other	157.3	130.5	120.2
	408.3	346.6	324.3
Income before income taxes and securities gains (losses)	420.3	360.0	375.1
Less: applicable income taxes	153.4	141.7	173.2
Income before securities gains (losses)	266.9	218.3	201.9
Net securities gains (losses) after income tax effect	(9.6)	(2.0)	0.8
Net income	$ 257.3	$ 216.3	$ 202.7

Analysis of year-to-year changes in net interest earnings

Impact of changes 1978/77 and 1977/76 in average balances of interest-earning assets and interest-bearing sources of funds used to finance interest-earning assets, and in average rates of interest earned and paid; in millions

	1978/77			1977/76		
	Increase(decrease) due to change in:			Increase(decrease) due to change in:		
	Average balance	Average rate	Total, or net, increase (decrease)	Average balance	Average rate	Total, or net, increase (decrease)
Interest-earning assets						
Interest-bearing deposits at banks	$ 59.2	$ 54.6	$113.8	$ 63.8	$(22.7)	$ 41.1
U.S. Treasury securities	(73.0)	5.7	(67.3)	(0.3)	(3.5)	(3.8)
Securities of states and political subdivisions	23.8	3.3	27.1	58.1	(9.2)	48.9
Other securities (including trading account securities)	9.5	5.4	14.9	(6.1)	5.1	(1.0)
Federal funds sold and securities purchased under agreements to resell	38.3	12.0	50.3	6.4	1.7	8.1
Loans at offices in the U.S.						
Commercial and industrial	19.8	67.8	87.6	(12.0)	0.8	(11.2)
Financial-institution	13.3	26.1	39.4	2.6	(3.5)	(0.9)
Broker and dealer	(17.4)	30.6	13.2	15.1	5.7	20.8
All other	10.3	11.4	21.7	(14.4)	(2.3)	(16.7)
Loans at offices outside the U.S.	135.1	70.4	205.5	88.9	(37.6)	51.3
Other interest-earning assets	6.2	0.8	7.0	0.5	11.5	12.0
Total interest-earning assets	225.1	288.1	513.2	202.6	(54.0)	148.6
Interest-bearing sources of funds used to finance interest-earning assets						
Time deposits in offices in the U.S.	106.9	80.5	187.4	26.9	(0.9)	26.0
Deposits in offices outside the U.S.	47.1	114.4	161.5	99.6	(49.5)	50.1
Federal funds purchased and securities sold under agreements to repurchase	(45.3)	65.4	20.1	8.5	12.0	20.5
Other borrowings at offices in the U.S.	45.0	15.4	60.4	(4.2)	0.8	(3.4)
Other borrowings at offices outside the U.S.	14.1	1.1	15.2	2.9	(2.5)	0.4
Long-term debt	(1.5)	-	(1.5)	4.0	1.2	5.2
Total interest-bearing sources of funds used to finance interest-earning assets	166.3	276.8	443.1	137.7	(38.9)	98.8
Net change in net interest earnings	$ 58.8	$ 11.3	$ 70.1	$ 64.9	$(15.1)	$ 49.8

EXAMPLES Presentation of stock prices and dividend data

FIRST COMMERCE CORPORATION

Common Stock Data

	Income Per Share Before Securities Losses	Net Income Per Share	Dividend Paid Per Share	Bid Price of Common Stock*		
				High	Low	End of Period
1977						
First Quarter	$0.29	$0.29	$0.25	$15.00	$14.00	$15.00
Second Quarter	$0.55	$0.55	$0.25	$16.25	$15.50	$16.00
Third Quarter	$0.60	$0.60	$0.25	$16.75	$16.00	$16.75
Fourth Quarter	$0.50	$0.49	$0.25	$19.50	$16.50	$19.38
1978						
First Quarter	$0.29	$0.29	$0.25	$19.38	$15.75	$16.25
Second Quarter	$0.56	$0.38	$0.25	$17.50	$16.75	$16.75
Third Quarter	$0.59	$0.57	$0.25	$17.50	$15.25	$16.75
Fourth Quarter	$0.47	$0.21	$0.25	$16.75	$15.00	$15.50

*Stock is traded in the over-the-counter market.

FIRST CHICAGO CORPORATION
Quarterly Earnings and Market Price Summary/Dividends

	Income Before Security Gains or Losses		Stock Market Price Range		Price/Earnings Range*	
	Amount (In Thousands)	Per Share	Low	High	Low	High
1977						
First Quarter	$ 25,748	$0.65	$19 1/4	$22 7/8	8.1	9.7
Second Quarter	27,848	0.70	17 5/8	20 5/8	7.3	8.5
Third Quarter	27,548	0.70	18	22 7/8	7.2	9.2
Fourth Quarter	29,955	0.75	16 7/8	19 3/4	6.0	7.1
Year	111,099	2.80	16 7/8	22 7/8	6.0	8.2
1978						
First Quarter	$ 31,063	$0.78	$16 3/4	$18 5/8	5.7	6.4
Second Quarter	33,322	0.84	17 1/4	23 1/8	5.6	7.5
Third Quarter	33,404	0.84	20 1/8	25 3/4	6.3	8.0
Fourth Quarter	33,256	0.84	18	25	5.5	7.6
Year	131,045	3.30	16 3/4	25 3/4	5.1	7.8

*Computation made by dividing market prices by the per share earnings of the latest twelve-month period ending with the current quarter.

Principal Market

The principal market for First Chicago Corporation common stock is the New York Stock Exchange.

Dividends	Declared	Payable	Record Date	Cents Per Share
	1/14/77	4/1/77	3/11/77	24
	4/15/77	7/1/77	6/10/77	24
	7/8/77	10/1/77	9/9/77	25
	11/10/77	1/1/78	12/9/78	25
	1/13/78	4/1/78	3/10/78	25
	4/14/78	7/1/78	6/9/78	25
	7/14/78	10/1/78	9/8/78	27 1/2
	11/10/78	1/1/78	12/8/78	27 1/2
	1/12/79	4/1/79	3/9/79	27 1/2

CHEMICAL NEW YORK CORPORATION

STOCK-PRICE RANGE/DIVIDENDS 1978-1977

Chemical New York Corporation's common and preferred stocks are traded on the New York Stock Exchange. The high and low market prices and the cash dividends declared on each class of stock for each of the last eight quarterly periods are set forth below:

	Common Stock			Preferred Stock		
	Market Price			Market Price		
	High	Low	Dividends	High	Low	Dividends
1978						
1st Quarter	$42 1/2	$37 1/8	$.75	$24	$22 1/8	$.46875
2nd Quarter	45 1/4	37 3/4	.75	24	21 3/8	.46875
3rd Quarter	42 1/2	38 1/8	.75	24 1/4	22	.46875
4th Quarter	44	36	.79	23 3/8	20 1/8	.46875
1977						
1st Quarter	$45 7/8	$40	$.72			
2nd Quarter	46 1/4	40	.75			
3rd Quarter	47 1/8	41 3/8	.75	$25 1/4	$24 3/4	$.3958
4th Quarter	45 1/8	38 1/2	.75	25 1/4	23	.46875

TEXAS COMMERCE BANCSHARES, INC.

Common Stock

The Common Stock of Texas Commerce is traded on the New York Stock Exchange--ticker symbol TCB. The high and low sales prices and dividends paid during each quarter for the past two years are shown in the table below:

	1978			1977		
	High	Low	Dividends Paid	High	Low	Dividends Paid
First Quarter	$36.75	$34.25	$.305	$39.25	$34.25	$.275
Second Quarter	40.00	36.00	.305	35.50	31.63	.275
Third Quarter	41.75	38.00	.305	37.75	33.00	.275
Fourth Quarter	40.38	35.88	.305	37.88	33.50	.275

At year-end 1978, Texas Commerce's Common Stock was held by 19,696 stockholders of record. The following table presents information relating to the distribution of the ownership of Common Stock.

	1978		1977 As Originally Reported	
	Number of Stockholders	Shares Held	Number of Stockholders	Shares Held
Range of Number of Shares:				
Under 100	14,750	200,650	11,707	175,345
100-500	2,916	642,667	2,447	596,866
501-1000	795	568,030	713	521,867
Over 1000	1,235	10,797,153	1,190	9,311,788
Total	19,696	12,208,500	16,057	10,605,866
Type of Stockholder:				
Individuals	16,368	5,192,364	13,421	5,059,572
Fiduciaries	1,938	912,055	1,548	860,886
Nominees	641	4,829,106	478	3,622,332
Institutions and foundations	121	93,615	99	88,790
Insurance companies	61	118,726	57	131,515
Brokers and dealers	66	106,531	48	236,512
Other	501	956,103	406	606,259
Total	19,696	12,208,500	16,057	10,605,866

EXAMPLES Tax Equivalent presentation
(excerpt from management discussion)

CITICORP

STATEMENT OF INCOME—ANALYSIS

Worldwide Net Interest Revenue
(Taxable Equivalent Basis)*

Net interest revenue increased 16% during 1978 to $2,350 million. This increase was primarily a result of an 11% increase in average commercial loan volume and a 48% increase in average consumer loan volume. The net rate spread between interest revenue earned and interest expense remained essentially flat on an overall basis from last year. However, the spread was impacted by several factors including a greater proportion of higher-yielding consumer loans, the continued availability of fixed-rate and interest-free deposits and fixed rate borrowings in a rapidly rising rate environment, and improved cash receipts on nonaccrual loans. Offsetting these positive factors were a higher level of relatively low-yielding deposits with banks and the rapidly rising cost of funding fixed-rate loans.

One factor favorably affecting the domestic net rate spread, which increased 34 basis points to 4.94% (as shown in the accompanying table) in 1978, was the increase in the higher-yielding, fixed-rate consumer loan portfolio, which comprised almost 30% of average domestic loans compared with 20% in 1977. Partially offsetting the increase was the impact of funding a largely fixed-rate consumer loan portfolio and the portion of commercial loans which are fixed rate in a rising rate environment. In addition, domestic cash receipts on nonaccrual loans rose to $31.2 million, up from $17.0 million in 1977. Finally, the increased value of domestic interest-free funds, including demand deposits, and fixed-rate, long-term funds contributed to improved net interest revenue. On average, the Citibank base rate rose from 6.83% to 9.06%, but this increase was offset by a significant rise in the cost of money market instruments which rose to an annual rate of 7.87% from 5.62%, resulting in a spread that remained essentially flat to that experienced in 1977.

The modest decrease in the international rate spread from 2.98% to 2.83% versus last year was due primarily to a $2.3 billion or 22% increase in interest-earning deposits with banks which are generally lower yielding than loans and to competitive rate pressures in the Eurodollar market. Cash receipts on nonaccrual loans increased to $20.7 million from the $10.1 million reported last year.

*The above description and analysis of net interest revenue is prepared on a taxable equivalent basis. The taxable equivalent basis portrays the tax-exempt interest earnings and yields on certain assets, primarily from state and municipal securities, as if subject to tax to facilitate the comparison of earnings and yields on a similar basis for all categories of assets. Net interest revenue on a taxable equivalent basis exceeds net interest revenue as shown on the statement of income as follows:

	1978 (In Millions)	1977
Interest Revenue	$6,817.3	$5,095.7
Adjustment to Taxable Equivalent Basis	94.0	132.4
Interest Revenue (Taxable Equivalent Basis)	$6,911.3	$5,228.1
Interest Expense	4,561.3	3,194.8
Net Interest Revenue (Taxable Equivalent Basis)	$2,350.0	$2,033.3

FINANCIAL GENERAL BANKSHARES, INC.

Interest Rates on Assets and Liabilities

	1978	1977	1976
Commercial loans	9.63%	8.18%	8.21%
Real estate loans	8.99	8.63	8.30
Installment loans	11.66	11.57	11.12
Total Loans	9.88	9.24	8.97
Taxable securities	7.07	6.77	6.99
Tax-free securities, fully taxable basis	9.07	9.01	8.91
Short-term investments	8.01	5.74	5.92
Average earnings assets	9.12	8.48	8.35
Savings deposits	4.79	4.80	4.72
Time deposits	6.79	5.97	5.89
Short-term borrowed funds	7.66	5.79	4.75
Long-term borrowed funds	9.26	7.38	7.08
Average interest bearing liabilities	6.10	5.48	5.40
Net interest to average earning assets	5.31%	5.09%	5.07%

Tax-free securities of states and their political subdivisions are presented on a fully tax-equivalent basis. The actual income and rate is adjusted to the amount necessary to arrive at the equivalent earnings of a fully taxable security. The full 48% tax rate is assumed because management feels that even though tax deferrals occur through timing differences, and the effective tax rate as presented in the notes to the financial statements is substantially less than this statutory rate, the full benefit of this income will be eventually felt and the deferral of that benefit through use of a lower rate would become misleading, especially in future years when it would be necessary to use higher than statutory rates.

MARINE MIDLAND BANKS, INC.

Table 3 provides the significant components of total income on earning assets, including interest on a fully tax-equivalent basis, fees and dividends and the expense of interest bearing liabilities. In 1978 total interest income increased $247.0 million over 1977, which was at essentially the same level as 1976. Although the increased average balance of earning assets contributed to the total interest income growth, the environment of overall higher interest rates was more of a significant factor in 1978 compared with the two prior years. The higher rates also impacted the cost of funds particularly with the earning asset growth supported by interest bearing liabilities principally in the more rate sensitive categories. Total interest expense increased $211.8 million in 1978 over 1977, which had increased $7.6 million over 1976.

Table 3 Net Interest Income Components

	1978 (in millions)	Increase (Decrease)	1977	Increase (Decrease)	1976
Interest income:					
Interest bearing deposits with banks	$128.2	$ 73.1	$ 55.1	$ 6.2	$ 48.9
Trading account securities*	2.6	(.4)	3.0	(.6)	3.6
Investment securities*	104.7	7.1	97.6	(22.2)	119.8
Loans and mortgages	724.8	164.8	560.0	27.6	532.4
Federal funds sold and securities purchased under resale agreements	2.9	1.3	1.6	(2.0)	3.6
Direct lease financing*	6.0	1.1	4.9	(4.8)	9.7
Total interest income*	969.2	247.0	722.2	4.2	718.0
Less interest on:					
Personal savings	131.3	9.5	121.8	8.9	112.9
Other domestic time deposits	130.4	47.8	82.6	(14.0)	96.6
Deposits in foreign offices	257.8	98.7	159.1	1.2	157.9
Other interest	120.9	55.8	65.1	11.5	53.6
Total interest expense	640.4	211.8	428.6	7.6	421.0
Net interest income*	328.8	35.2	293.6	(3.4)	297.0
Less adjustment for tax-equivalent basis	18.7	(4.9)	23.6	(11.9)	35.5
Net interest income excluding tax-equivalent adjustment	$310.1	$ 40.1	$270.0	$ 8.5	$261.5

*Fully tax-equivalent basis.

FIRST UNION BANCORPORATION

							% Change, Selected Items		
	1978	1977	1976	1975	1974	1973	1978	1977	Five-Year Annual Compound, 1974-1978
Taxable equivalent information (in thousands)									
For analysis purposes, interest and dividend revenue, and net interest margin components of earnings, are adjusted to a fully taxable equivalent basis as follows:									
Interest and dividend revenue	$222,540	$164,664	$148,508	$147,419	$162,931	$101,921	35.1%	10.9%	16.9%
Fully taxable equivalent adjustments (d)	14,897	14,148	13,368	14,706	13,879	9,175			
Fully taxable equivalent basis	$237,437	$178,812	$161,876	$162,125	$176,810	$111,096	32.8%	10.5%	16.4%
Net interest margin	$ 84,498	$ 74,457	$ 68,401	$ 61,201	$ 48,772	$ 44,644	13.5%	8.9%	13.6%
Fully taxable equivalent adjustments (d)	14,897	14,148	13,368	14,706	13,879	9,175			
Fully taxable equivalent basis	$ 99,395	$ 88,605	$ 81,769	$ 75,907	$ 62,651	$ 53,819	12.2%	8.4%	13.1%
Net interest margin after provision for losses on loans	$ 78,896	$ 69,178	$ 61,722	$ 53,894	$ 44,637	$ 42,429	14.0%	12.1%	13.2%
Fully taxable equivalent adjustments (d)	14,897	14,148	13,368	14,706	13,879	9,175			
Fully taxable equivalent basis	$ 93,793	$ 83,326	$ 75,090	$ 68,600	$ 58,516	$ 51,604	12.6%	11.0%	12.7%
Net interest margin after provision for losses on loans, plus noninterest revenue	$104,904	$ 92,166	$ 84,677	$ 73,896	$ 62,838	$ 58,860	13.8%	8.8%	12.3%
Fully taxable equivalent adjustments (d)	14,897	14,148	13,368	14,706	13,879	9,175			
Fully taxable equivalent basis	$119,801	$106,314	$ 98,045	$ 88,602	$ 76,717	$ 68,035	12.7%	8.4%	12.0%

(d) Certain interest and dividend revenue is fully or partially exempt from federal income taxes. The net effect of various state and local tax laws is that substantially all such revenue is not exempt from state and local taxation. Adjustments for analysis purposes of such revenue to a fully taxable equivalent basis are based primarily on the statutory federal income tax rate of 48 per cent. Such adjustments by earning asset category are as follows:

Loans	$ 535	$ 503	$ 342	$ 445	$ 416	$ 503
Investment securities:						
State and municipal	13,632	13,044	12,442	12,503	10,739	7,510
Other, excluding corporate stocks	36	36	29	55	73	107
Corporate stocks	447	442	400	449	537	516
Total investment securities	14,115	13,522	12,871	13,007	11,349	8,133
Trading securities--state and municipal	247	123	155	1,254	2,114	539
Total fully taxable equivalent adjustments	$ 14,897	$ 14,148	$ 13,368	$ 14,706	$ 13,879	$ 9,175

WELLS FARGO & COMPANY

Taxable-equivalent presentation

The interest differential and spread and the analysis of changes in interest differential tables, have been computed on a taxable-equivalent basis. Since certain types of revenue are tax exempt or are otherwise unequally impacted by federal tax regulations, management feels that an adjustment is necessary in order to show these yields on a comparable basis with fully taxable income-producing assets of similar risk and maturity.

The following table summarizes the adjustments made for taxable-equivalent basis presentation:

Adjustments for taxable-equivalent basis.

	Year ended December 31,				
	1978	1977	1976	1975	1974
	(In millions)				
Net interest income per consolidated statement of income	$602.6	$469.7	$398.1	$348.0	$271.1
Tax adjustment to obligations of states and political subdivisions	32.6	23.3	16.1	30.1	35.0
Tax adjustment for the municipal portion of trading account securities	.2	.2	.1	.4	4.2
Tax adjustment to reflect the effect of investment tax credit on leasing	1.8	2.5	2.3	1.9	1.2
Interest differential	$637.2	$495.7	$416.6	$380.4	$311.5

The tax rate used in the adjustment is based on the 48 percent federal income tax rate and takes into consideration the state tax that is applicable on municipal securities. No similar state tax effect is applicable to the direct lease financing adjustment for investment tax credit.

EXAMPLES Statistical disclosure relating to non performing loans.

SHAWMUT CORPORATION

Income Recognition of Non-Performing Loans

For purposes of the following chart particular loans are considered to be non-performing, based on the following criteria: (a) contractually past due 60 days or more as to interest or principal payments; or (b) terms have been renegotiated because of a weakening in the position of the borrower to provide a reduction or deferral of interest or principal. The following table presents the principal amounts and the reduction in interest income for 1978, 1977 and 1976.

	Outstanding As of December 31			Reduction In Interest Income On Such Loans		
	1978 (in thousands)	1977	1976	1978	1977	1976
Contractually past due						
Commercial, financial and agricultural	$13,720	$ 8,532	$10,904	$ 582	$403	$ 738
Real estate--construction	205	458	620	5	3	18
Real estate--mortgage	1,315	2,299	3,738	62	100	49
Consumer	2,205	2,473	4,789	35	33	112
Foreign	1,693	2,067	2,779	140	133	194
Total contractually past due	19,138	15,829	22,830	824	672	1,111
Renegotiated						
Commercial, financial and agricultural	2,003	2,698	10,424	177	85	989
Consumer	378	360	26	-	1	2
Total renegotiated	2,381	3,058	10,450	177	86	991
Total non-performing loans	$21,519	$18,887	$33,280	$1,001	$758	$2,102

Information on non-performing loans for the years 1975 and 1974 is not presented since the information cannot be compiled without unwarranted or undue burden or expense.

FIDELCOR, INC.

Non-Performing Assets

	As of December 31				
Five Year Summary	1978 (thousands)	1977	1976	1975	1974
Banking					
Non-accruing loans:					
Real estate investment trusts	$ 7,697	$ 8,721	$ 11,672	$ 30,397	$ -
Other	33,953	39,679	54,152	37,556	32,034
Total	41,650	48,400	65,824	67,953	32,034
Partially-accruing loans:					
Real estate investment trusts	2,221	25,076	45,343	25,249	-
Other	10,984	8,909	2,840	-	-
Total	13,205	33,985	48,183	25,249	-
Foreclosed real estate	15,538	9,386	5,253	264	78
Total--Banking	$ 70,393	$ 91,771	$119,260	$ 93,466	$ 32,112
Non-Banking					
Non-accruing loans:					
Real estate	$ 3,789	$ 9,727	$ 9,458	$ 10,456	$ -
Other	1,333	487	1,575	1,867	-
Total	5,122	10,214	11,033	12,323	-
Partially-accruing loans:					
Real estate investment trust	20,500	24,000	24,000	-	-
Real estate	-	924	878	-	-
Total	20,500	24,924	24,878	-	-
Foreclosed real estate	10,273	10,750	5,000	1,402	-
Total--Non-Banking	$ 35,895	$ 45,888	$ 40,911	$ 13,725	$ -
Consolidated					
Non-accruing loans	$ 46,772	$ 58,614	$ 76,857	$ 80,276	$ 32,034
Partially-accruing loans	33,705	58,909	73,061	25,249	-
Foreclosed real estate	25,811	20,136	10,253	1,666	78
Total	$106,288	$137,659	$160,171	$107,191	$ 32,112
Interest income not recognized	$ 13,210	$ 10,287	$ 11,139	$ 9,234	$ 3,551
Per share equivalent	$ 1.40	$ 1.09	$ 1.19	$ 1.00	$ .39

Reconciliation for 1978	Non-Accruing Loans	Partially-Accruing Loans	Foreclosed Real Estate	Total
Balance, December 31, 1977	$ 58,614	$ 58,909	$ 20,136	$137,659
Additions:				
From accruing	32,329	2,881	-	35,210
Cash advances	870	433	3,059	4,362
Other (net)	395	-	(919)	(524)
Total	33,594	3,314	2,140	39,048
Transfers:				
Non-accruing to partially-accruing	(5,000)	5,000	-	-
Partially-accruing to non-accruing	4,433	(4,433)	-	-
Foreclosures	(4,537)	(14,498)	19,035	-
Total	(5,104)	(13,931)	19,035	-
Reductions:				
Cash payments	13,887	2,786	8,955	25,628
Restored to accruing	851	4,308	5,721	10,880
Charge-offs	25,594	7,493	824	33,911
Total	40,332	14,587	15,500	70,419
Balance, December 31, 1978	$ 46,772	$ 33,705	$ 25,811	$106,288

HARRIS BANKCORP, INC.

Non-performing Loans

The following table and comments summarize special surveillance and non-performing loans by payment status at the dates indicated.

	Special Surveillance Loans	Other Compromised Rate and Non-accrual Loans	Total
December 31, 1978:			
Current loans--not yet matured	$ 7,135	$ -	$ 7,135
Compromised rate loans	914	-	914
Non-accrual loans--matured	12,615	2,998	15,613
Total	$20,664	$ 2,998	$23,662
December 31, 1977:			
Current loans--not yet matured	$ 120	$ -	$ 120
Compromised rate loans	987	4,013	5,000
Non-accrual loans--matured	17,145	4,375	21,520
Total	$18,252	$ 8,388	$26,640
December 31, 1976:			
Current loans--not yet matured	$ 5,700	$ -	$ 5,700
Compromised rate loans	1,050	3,812	4,862
Non-accrual loans--matured	13,618	4,152	17,770
Total	$20,368	$ 7,964	$28,332
December 31, 1975:			
Current loans--not yet matured	$ 7,466	$ -	$ 7,466
Compromised rate loans	7,557	9,303	16,860
Non-accrual loans--matured	6,094	5,990	12,084
Total	$21,117	$15,293	$36,410

	1978	1977	1976	1975
Gross amount of interest which would have been recorded if all such loans had been accruing interest at original terms	$ 1,773	$ 2,154	$ 2,403	$ 2,991
Amount of interest actually recorded	98	258	319	1,103
Interest shortfall	$ 1,675	$ 1,896	$ 2,084	$ 1,888
After tax earnings per share effect of interest shortfall	$ .12	$ .15	$ .17	$ .16

Included in the above amounts at December 31, 1978 are $1,716,000 of loans which are 60 days past due as to principal or interest. There is an additional $18,050,000 of 60 days past due loans at December 31, 1978 and $14,450,000 at December 31, 1977, which management believes to be fully collectible.

Note: Data on 60 days past due loans prior to 1977 are not available.

SEAFIRST CORPORATION

NON-PERFORMING ASSETS

	1978 ($ Millions, December 31)	1977	1976	1975	1974
Non-Accrual:					
REIT	$ 3.0	$15.7	$27.0	$23.8	$ -
Real Estate (Commercial)	5.1	10.2	11.1	9.6	2.7
Other Commercial	26.4	15.5	4.4	8.3	3.2
Renegotiated	-	7.9	-	9.5	-
Sub-Total	34.5	49.3	42.5	51.2	5.9
Other Real Estate	7.5	5.9	4.0	8.4	-
Total	$42.0	$55.2	$46.5	$59.6	$5.9
Non-Accrual and Renegotiated Loans as a Percent of Total Loans	.8%	1.4%	1.4%	1.9%	.2%
Interest Lost on Non-Accrual and Renegotiated Loans, After Tax, Per Share	$ .13	$ .15	$ .14	$ .11	$ .02

MELLON NATIONAL CORPORATION

Supplementary Financial Data

Information on Nonperforming Assets

	December 31, 1978 (in thousands)	1977	1976	1975	1974
Outstanding Amounts at Year-End:					
Cash-Basis and Reduced-Rate Loans	$ 82,612	$109,818	$187,885	$220,316	$ 82,621
Other Nonperforming Assets (Included in Other Assets)	67,327	105,531	105,549	69,241	21,552
Total	$149,939	$215,349	$293,434	$289,557	$104,173
Foregone Interest Income on Cash-Basis and Reduced-Rate Loans:					
Contractual Income Due	$ 9,792	$ 12,711	$ 21,132	$ 26,388	$ 10,360
Income Recognized in Consolidated Statement of Income	2,262	4,076	5,011	8,949	4,759
Difference	$ 7,530	$ 8,635	$ 16,121	$ 17,439	$ 5,601
Interest Cost of Carry:					
Cash-Basis and Reduced-Rate Loans	$ 4,859	$ 3,514	$ 8,215	$ 10,697	$ 2,366
Other Nonperforming Assets	6,664	5,468	5,699	3,189	674
Total	$ 11,523	$ 8,982	$ 13,914	$ 13,186	$ 3,040

RAINIER BANCORPORATION

The following table presents information on nonperforming loans:

December 31, 1978

(In Thousands of Dollars)

	Non-accrual	60 Days or More Past Due	Renego-tiated	Total Non-performing	Loans Out-standing	Percentage Nonperform-ing Loans to Outstanding Loans
Construction and Land Development	$ 55	$ 225	$ -	$ 280	$ 107,244	.26%
REITs	601	-	-	601	3,602	16.69
Mortgage Companies	11	-	-	11	43,435	.03
Consumer	766	9,990	65	10,821	798,696	1.35
Agricultural	289	1,458	427	2,174	142,351	1.53
Commercial, Financial and Industrial	941	7,747	537	9,225	754,402	1.22
All Other Domestic	5	2,040	55	2,100	523,394	.40
Foreign	109	1,877	2,500	4,486	402,199	1.12
Total	$2,777	$23,337	$3,584	$29,698	$2,775,323	1.07%

December 31, 1977

(In Thousands of Dollars)

	Non-accrual	60 Days or More Past Due	Renego-tiated	Total Non-performing	Loans Out-standing	Percentage Nonperform-ing Loans to Outstanding Loans
Construction and Land Development	$2,810	$ -	$-	$ 2,810	$ 66,339	4.24%
REITs	887	-	-	887	887	100.00
Mortgage Companies	-	-	-	-	39,560	-
Consumer	628	6,009	114	6,751	599,339	1.13
Agricultural	1,116	3,272	331	4,719	134,279	3.51
Commercial, Financial and Industrial	945	4,539	133	5,617	673,519	.83
All Other Domestic	260	516	110	886	472,890	.19
Foreign	2,396	158	-	2,554	347,719	.73
Total	$9,042	$14,494	$688	$24,224	$2,334,532	1.04%

The per share, after-tax impact of loss of interest income on nonperforming loans was $.01 in 1978 and $.05 in 1977. In addition to nonperforming loans the company had real estate taken back of $353,000 in 1978 and $497,000 in 1977. The per share, after-tax impact of loss of interest income on real estate taken back was less than $.01 in 1978 and $.01 in 1977.

EXAMPLES Statistical disclosure—allowance for loan losses

BANK OF NEW YORK COMPANY, INC.

Analysis of the Allowance for Loan Losses

The following table sets forth details by major loan category with respect to the Company's allowance for loan losses and loans, net of unearned discount, for the five years ended December 31, 1978:

	1978 (In Thousands)	1977	1976	1975	1974
Loans Outstanding, December 31	$3,529,237	$2,805,261	$2,616,888	$2,339,129	$2,215,183
Average Loans Outstanding	$3,115,391	$2,655,599	$2,337,621	$2,071,031	$2,034,282
Allowance for Loan Losses					
Balance, January 1	$ 25,503	$ 25,429	$ 25,923	$ 24,933	$ 24,694
Loans Charged Off					
Loans to Financial Institutions	(278)	(638)	(2,022)	(2,074)	(2,625)
Commercial and Industrial Loans	(5,024)	(4,354)	(4,671)	(4,377)	(1,646)
Loans to Individuals for Household, Family and Other Personal Expenditures	(4,339)	(3,310)	(3,291)	(2,015)	(1,541)
Loans Attributed to Foreign Operations	-	-	-	-	-
Total	(9,641)	(8,302)	(9,984)	(8,466)	(5,812)
Recoveries					
Loans to Financial Institutions	630	134	1,700	-	-
Commercial and Industrial Loans	1,205	974	397	1,087	1,192
Loans to Individuals for Household, Family and Other Personal Expenditures	1,199	718	593	313	292
Loans Attributed to Foreign Operations	-	-	-	-	-
Total	3,034	1,826	2,690	1,400	1,484
Net Charge-offs	(6,607)	(6,476)	(7,294)	(7,066)	(4,328)
Balance Relating to Acquired Banks	-	-	-	900	82
Provision Charged to Expense	7,000	6,550	6,800	7,156	4,485
Balance, December 31	$ 25,896	$ 25,503	$ 25,429	$ 25,923	$ 24,933
Ratios					
Net Charge-offs to Average Loans Outstanding	.21%	.24%	.31%	.34%	.21%
Net Charge-offs to Total Allowance	25.51%	25.39%	28.68%	27.26%	17.36%
Allowance to Average Loans Outstanding	.83%	.96%	1.09%	1.25%	1.23%
Pre-tax Income Plus Loan Loss Provision to Net Charge-offs	9.53x	7.89x	6.39x	7.58x	11.32x

NORTHWEST BANCORPORATION

Valuation Reserve For Loans

	1978	1977	1976	1975	1974
	(In millions of dollars)				
Balance at beginning of year	$52.7	45.9	46.2	43.0	43.8
Reserves of acquired banks	.2	.9	-	-	-
Provisions charged to expense	20.1	17.8	17.8	15.7	10.8
Deduct loan losses	(15.3)	(15.9)	(22.1)	(15.9)	(13.4)
Recoveries	4.9	4.0	4.0	3.3	1.8
Net loan losses	(10.4)	(11.9)	(18.1)	(12.6)	(11.6)
Balance at end of year	$62.6	52.7	45.9	46.1	43.0
Valuation reserve for loans:					
As a percent of total loans at end of year	.96%	.95	1.01	1.11	1.05
As a multiple of net loan losses	6.05x	4.41	2.54	3.67	3.99
Earnings coverage of net loan losses	14.28x	10.33	5.80	7.66	7.17

Loan Charge-Offs

	1978	1977	1976	1975	1974
	(In millions of dollars)				
Gross loan charge-offs:					
Commercial, industrial, agricultural and other	$ 8.0	9.5	17.3	10.5	9.0
Real estate	.6	1.3	.8	.8	.5
Consumer	4.3	3.4	2.6	3.2	2.8
Credit card	2.4	1.7	1.4	1.4	1.1
Total	$15.3	15.9	22.1	15.9	13.4
Net loan charge-offs:					
Commercial, industrial, agricultural and other	$ 5.4	7.3	14.5	8.5	8.1
Real estate	.1	1.0	.7	.8	.5
Consumer	2.9	2.3	1.7	2.2	2.1
Credit card	2.0	1.3	1.2	1.1	.9
Total	$10.4	11.9	18.1	12.6	11.6
Net loan charge-off ratio:					
Commercial, industrial, agricultural and other	.17%	.27	.59	.39	.37
Real estate	.01	.08	.06	.07	.04
Consumer	.29	.28	.26	.31	.31
Credit card	1.35	1.09	1.15	1.36	1.27
Total loans	.17	.24	.42	.31	.29

NEW ENGLAND MERCHANTS COMPANY, INC.

Summary of Loan and Lease Loss Experience

The following table shows the allowance for possible loan and lease loss for the last five years in thousands:

	1978	1977	1976	1975	1974
Balance, January 1	$ 9,117	$ 7,992	$ 7,116	$ 6,696	$ 6,718
Acquisition	-	-	-	353	-
Provision charged to operations	4,022	4,215	6,807	6,850	5,579
Recoveries	2,415	1,369	1,183	1,005	1,768
Charge-offs	4,378	4,459	7,114	7,788	7,369
Net charge-offs	1,963	3,090	5,931	6,783	5,601
Balance, December 31	$ 11,176	$ 9,117	$ 7,992	$ 7,116	$ 6,696

The allowance above is composed of two allowances as follows in thousands:

	1978	1977	1976	1975	1974
Loan	$ 9,917	$ 8,224	$ 7,158	$ 6,315	$ 6,377
Lease	1,259	893	834	801	319
	$ 11,176	$ 9,117	$ 7,992	$ 7,116	$ 6,696
Other information--dollars in thousands:					
Loans outstanding at year-end	$924,204	$743,285	$691,162	$690,296	$771,100
Average loans for year	$835,023	$736,100	$691,929	$739,894	$755,891
Net loan charge-offs as percent of average loans	.23%	.41%	.85%	.92%	.74%
Allowance for loan loss as percent of year-end loans	1.07%	1.11%	1.04%	.91%	.83%

Summary of Loan Loss Experience

The following table shows loan charge-offs and recoveries by type of loan for the last three years in thousands:

	Charge-offs			Recoveries			Net Charge-offs		
	1978	1977	1976	1978	1977	1976	1978	1977	1976
Commercial, financial, agricultural	$2,888	$3,426	$5,498	$1,561	$ 813	$ 603	$1,327	$2,613	$4,895
Real estate--construction	875	139	768	644	363	337	231	(224)	431
Real estate--mortgage	-	191	41	-	-	5	-	191	36
Installment--personal	559	652	769	166	155	132	393	497	637
Foreign	-	-	-	44	38	107	(44)	(38)	(107)
	$4,322	$4,408	$7,076	$2,415	$1,369	$1,184	$1,907	$3,039	$5,892

The following table shows how the allowance for possible loan loss at year end was classified for the last three years in thousands:

	Loan Allowance at Year End			Percent of Loans by Type to Total Loans		
	1978	1977	1976	1978	1977	1976
Commercial, financial, agricultural	$3,481	$3,022	$2,678	62.5%	68.3%	68.2%
Real estate--construction	317	408	479	3.7	1.9	2.4
Real estate--mortgage	170	219	258	8.9	8.3	9.5
Installment--personal	619	1,416	800	6.3	7.6	7.1
Foreign	819	525	450	18.6	13.9	12.8
Unallocated	4,511	2,634	2,493			
	$9,917	$8,224	$7,158	100.0%	100.0%	100.0%

The allowance is comprised of an amount adequate to absorb anticipated losses related to specific problem loans, based on a review of the loan portfolio, and an unallocated amount for loans in the existing portfolio which have the potential of becoming uncollectible, but which cannot be individually identified at this time. The level of the unallocated allowance is determined by management's consideration of the overall assessment of risk in the loan portfolio which includes current economic conditions, loss experience, size of the portfolio and other factors which may influence risk.

CENTRAL PENN NATIONAL CORP.

Five-Year Loan Loss Experience

	1978	1977	1976	1975	1974
	(In thousands)				
Loans outstanding, end of year	$469,948	$446,774	$423,501	$450,050	$483,861
Average loans outstanding	$459,885	$434,593	$433,479	$457,282	$468,913
Reserve balance, beginning of year	$ 5,671	$ 5,138	$ 6,268	$ 5,721	$ 6,301
Provision charged to operating expense	3,825	5,150	4,800	3,175	2,632
Loans charged off:					
Commercial	(2,415)	(2,740)	(2,425)	(1,797)	(2,331)
Real estate	(753)	(1,772)	(979)	-	-
Real estate investment trusts	(150)	(416)	(2,021)	(367)	-
Installment	(654)	(592)	(810)	(832)	(1,229)
Total charged off	(3,972)	(5,520)	(6,235)	(2,996)	(3,560)
Recoveries:					
Commercial	279	686	71	123	131
Installment	203	217	234	245	217
Total recoveries	482	903	305	368	348
Reserve balance, end of year	$ 6,006	$ 5,671	$ 5,138	$ 6,268	$ 5,721
Ratios:					
Net chargeoffs to average loans	.76%	1.06%	1.37%	.57%	.68%
Year end reserve to loans	1.28%	1.27%	1.21%	1.39%	1.18%

Allocation of the Valuation Reserve for Loan Losses

The allocation of the valuation reserve for possible loan losses at December 31, 1978, is shown at the right, by loan category. The allocation is based upon management's evaluation of the loan portfolio. It is entirely possible that these specific allocations to particular categories of loans may prove excessive or may prove inadequate. If either eventuality were to occur, the reserve would be reallocated to reflect then current conditions. In essence, the bank considers that the entire reserve would be available for the absorption of losses in any category.

	(in thousands)
Commercial	$2,300
Real estate	1,500
Real estate investment trusts	1,000
Installment	600
Unallocated	606
Total	$6,006

INDIANA NATIONAL CORPORATION

Loan Loss Experience Analysis

The following table sets forth information with respect to the Corporation's loans and allowance for loan losses, excluding Indun Realty, Inc., for five years ended December 31, 1978: (in thousands)

	December 31		
	1978	1977	1976
Loans outstanding, net of unearned discount, at end of period	$1,027,656	$ 985,584	$ 960,950
Daily average amount of loans outstanding, net of unearned discount	$1,010,312	$ 962,503	$ 976,175
Allowance for loan losses at beginning of period	$ 13,284	$ 15,089	$ 14,131
Loans charged-off:			
Real estate loans	17	2,327	918
Commercial and financial	1,344	2,359	2,518
Installment	2,373	2,965	2,584
Credit card	1,376	1,223	1,298
Foreign	230	6	-
Total loans charged-off	5,340	8,610	7,318
Recoveries of loans previously charged-off:			
Real estate loans	12	45	24
Commercial and financial	1,051	670	718
Installment	701	626	522
Credit card	361	326	229
Foreign	23	10	45
Total recoveries of Loans	2,148	1,677	1,538
Net loans charged-off	3,192	6,933	5,780
Additions to allowance charged against income	5,662	4,567	6,738
Transfer of allowance from discontinued operations	-	561	-
Allowance for loan losses at end of period	$ 15,754	$ 13,284	$ 15,089
Ratio of net loans charged-off to average loans outstanding	.32%	.72%	.59%

	1975	1974
Loans outstanding, net of unearned discount, at end of period	$1,001,068	$1,111,952
Daily average amount of loans outstanding, net of unearned discount	$1,033,852	$1,104,819
Allowance for loan losses at beginning of period	$ 12,217	$ 10,150
Loans charged-off:		
Real estate loans	456	28
Commercial and financial	3,178	2,253
Installment	1,980	1,180
Credit card	1,291	943
Foreign	-	283
Total loans charged-off	6,905	4,687
Recoveries of loans previously charged-off:		
Real estate loans	-	-
Commercial and financial	1,645	506
Installment	365	281
Credit card	175	112
Foreign	12	-
Total recoveries of loans	2,197	899
Net loans charged-off	4,708	3,788
Additions to allowance charged against income	6,712	5,855
Transfer of allowance to discontinued operations	(90)	-
Allowance for loan losses at end of period	$ 14,131	$ 12,217
Ratio of net loans charged-off to average loans outstanding	.46%	.34%

Allowance for Other Estate Losses

	December 31			
	1978 (in thousands)	1977	1976	1975
Allowance for losses of other real estate at beginning of period	$4,016	$3,127	$1,050	$ -
Other real estate charged-off (deduction)	(4,076)	(1,124)	(1,457)	(667)
Provision charged to cost of operation of other real estate	561	2,013	3,534	1,717
Allowance for losses of other real estate at end of period	$ 501	$4,016	$3,127	$1,050

Allocation of Allowance for Loan Losses

Management of the Corporation and its subsidiaries has allocated the allowance for loan losses with the categories of loans set forth in the table below according to amounts deemed reasonably necessary to provide for possible losses. It is emphasized that the allocations will change based on subsequent evaluations and loan levels within each category. The amount of such components and percentage of such allowance amounts to the related loan balances outstanding at December 31, 1978, 1977, and 1976 are as follows: (in thousands)

	December 31			
	1978		1977	
	Allowance Amount	Percentage Of Allowance To Gross Loans Outstanding	Allowance Amount	Percentage Of Allowance To Gross Loans Outstanding
Commercial and financial	$ 5,046	1.12%	$ 5,556	1.40%
Real estate	5,886	2.20	2,752	1.03
Installment	1,634	.80	2,466	1.11
Credit card	1,396	1.62	942	1.38
Foreign	500	.92	500	.68
Not allocated	1,292	-	1,068	-
	$15,754	1.48%	$13,284	1.29%

	December 31	
	1976	
	Allowance Amount	Percentage Of Allowance To Gross Loans Outstanding
Commercial and financial	$ 6,067	1.60%
Real estate	4,996	1.89
Installment	1,479	.71
Credit card	1,000	1.84
Foreign	500	.52
Not allocated	1,047	-
	$15,089	1.51%

Allowance for losses for the total Corporation is summarized as follows: (in thousands)

	December 31, 1978	December 31, 1977
Applicable to loans	$15,754	$13,284
Applicable to other real estate	501	4,016
Indun Realty, Inc.	19,910	11,101
	$36,165	$28,401

EXAMPLES Statistical disclosures relating to interest rates and interest differential

HOSPITAL TRUST CORPORATION

Net Interest Margin

(Dollars in Thousands)

	Year Ended December 31									
	1978			1977			Increase (Decrease)			
							Income Or Expense		Average Balance Sheet Amounts	
	Income Or Expense	Average Balance Sheet Amounts	Yields/ Rates	Income Or Expense	Average Balance Sheet Amounts	Yields/ Rates	Amount	%	Amount	%
Interest income:										
Loans—net of unearned income										
Commercial	$34,032	$332,000	10.25%	$22,696	$276,000	8.22%	$11,336	50.0	$56,000	20.3
Consumer	13,292	111,000	11.97	11,105	104,000	10.68	2,187	19.7	7,000	6.7
Real Estate	21,969	265,000	8.29	18,640	234,000	7.97	3,329	17.9	31,000	13.2
	69,293	708,000	9.79	52,441	614,000	8.54	16,852	32.1	94,000	15.3
Investment securities										
U.S. Treasury securities	4,192	54,000	7.76	3,936	60,000	6.56	256	6.5	(6,000)	(10.0)
Obligations of states and political subdivisions	10,954	114,000	9.61	8,154	86,000	9.48	2,800	34.3	28,000	32.6
U.S. Government agencies and other securities	2,770	39,000	7.10	3,031	43,000	7.05	(261)	(8.6)	(4,000)	(9.3)
	17,916	207,000	8.66	15,121	189,000	8.00	2,795	18.5	18,000	9.5
Other earning assets	6,697	77,000	8.70	5,499	71,000	7.75	1,198	21.8	6,000	8.5
	93,906	992,000	9.47	73,061	874,000	8.36	20,845	28.5	118,000	13.5
Interest cost:										
Savings deposits	13,973	304,000	4.60	13,814	305,000	4.53	159	1.2	(1,000)	.3
Time deposits	24,428	348,000	7.02	16,144	277,000	5.83	8,284	51.3	71,000	25.6
Borrowings	10,060	128,000	7.86	5,588	93,000	6.01	4,472	80.0	35,000	37.6
Obligations under capital leases	1,795	23,000	7.80	1,811	23,000	7.87	(16)	(.9)	-	-
	50,256	803,000	6.26	37,357	698,000	5.35	12,899	34.5	105,000	15.0
Net interest margin	$43,650		3.21%	$35,704		3.01%	$ 7,946	22.3		

The change in net interest margin from 1977 to 1978 is analyzed as follows:

	Changes Due To		Net
	Average Outstandings	Yields/ Rate	Increase (Decrease)
Loans:			
Commercial	$ 4,603	$ 6,733	$ 11,336
Consumer	748	1,439	2,187
Real Estate	2,471	858	3,329
	7,822	9,030	16,852
Investments:			
U.S. Treasury	(394)	650	256
Municipals	2,654	146	2,800
Other securities	(282)	21	(261)
	1,978	817	2,795
Other earning assets	465	733	1,198
	10,265	10,580	20,845
Interest cost:			
Savings deposits	45	(204)	(159)
Time deposits	(4,139)	(4,145)	(8,284)
Borrowings	(2,079)	(2,393)	(4,472)
Obligations under capital leases	-	16	16
	(6,173)	(6,726)	(12,899)
Net change in interest margin	$ 4,092	$ 3,854	$ 7,946

BANK OF NEW YORK COMPANY, INC.

Average Rates and Yields on a Taxable Equivalent Basis (In Thousands)

	1978			1977			1976			1975		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Interest-Earning Assets												
Due from Banks at Interest	$ 818,209	$ 68,970	8.43%	$ 612,063	$ 39,612	6.47%	$ 521,416	$ 33,797	6.48%	$ 415,655	$ 35,176	8.46%
Federal Funds Sold and Securities Purchased Under Resale Agreements	340,636	27,323	8.02	271,257	15,750	5.81	104,213	5,431	5.21	108,214	6,383	5.90
Loans	3,115,392	292,463	9.39	2,655,599	209,209	7.88	2,337,621	185,562	7.94	2,071,031	180,878	8.73
Funds Loaned	4,274,237	388,756	9.10	3,538,919	264,571	7.48	2,963,250	224,790	7.59	2,594,900	222,437	8.57
U.S. Government Obligations	262,250	18,850	7.19	314,292	22,585	7.19	267,402	19,250	7.20	238,592	17,420	7.30
U.S. Government Agency Obligations	101,005	7,305	7.23	80,008	5,674	7.09	28,440	1,997	7.02	67,038	4,991	7.44
Obligations of States and Political Subdivisions	561,350	61,400	10.94	486,097	52,872	10.88	547,429	64,577	11.80	549,650	62,113	11.30
Other Securities, including trading account securities	71,556	6,218	8.69	48,748	3,303	6.78	27,251	1,857	6.81	20,302	2,060	10.15
Securities	996,161	93,773	9.41	929,145	84,434	9.09	870,522	87,681	10.07	875,582	86,584	9.89
Total Interest-Earning Assets	$5,270,398	$482,529	9.16%	$4,468,064	$349,005	7.81%	$3,833,772	$312,471	8.15%	$3,470,482	$309,021	8.90%
Interest-Bearing Liabilities												
Deposits												
Savings	$ 804,706	$ 39,678	4.93%	$ 863,050	$ 42,634	4.94%	$ 752,440	$ 36,926	4.91%	$ 546,209	$ 26,039	4.77%
Time	958,625	72,141	7.53	692,967	39,969	5.77	641,628	37,221	5.80	677,149	44,057	6.51
Foreign Branches	1,290,186	105,580	8.18	953,553	58,985	6.19	770,073	47,409	6.16	584,617	46,124	7.89
	3,053,517	217,399	7.12	2,509,570	141,588	5.64	2,164,141	121,556	5.62	1,807,975	116,220	6.43
Federal Funds Purchased and Securities Sold Under Repurchase Agreements	741,929	59,387	8.00	542,998	30,238	5.57	293,383	14,980	5.11	320,269	18,964	5.92
Notes and Convertible Debentures	70,640	4,566	6.46	73,693	4,559	6.19	73,448	4,533	6.17	66,894	4,240	6.34
	3,866,086	281,352	7.28	3,126,261	176,385	5.64	2,530,972	141,069	5.57	2,195,138	139,424	6.35
Non-Interest Bearing Sources of Funds	1,404,312	-	-	1,341,803	-	-	1,302,800	-	-	1,275,344	-	-
Total Sources of Funds Used to Finance Interest-Earning Assets	$5,270,398	$281,352	5.34%	$4,468,064	$176,385	3.95%	$3,833,772	$141,069	3.68%	$3,470,482	$139,424	4.02%
Net Interest Earnings		$201,177			$172,620			$171,402			$169,597	
Net Yield on Interest-Earning Assets			3.82%			3.86%			4.47%			4.88%

Note: Data from 1974 omitted from this example

BANK OF NEW YORK COMPANY, INC.

Rate/Volume Analysis

The following table shows the approximate effect on net interest of volume and rate changes for the years 1978 and 1977. Because of the numerous and simultaneous balance and rate changes during the year, it is impossible to allocate the changes precisely between balances and rates. For purposes of this table, changes which are not solely due to balance changes or solely due to rate changes are allocated to such categories based on the respective percentage changes in average balances and average rates.

	1978 vs. 1977			1977 vs. 1976		
	Increase (decrease) due to change in:		Total increase (decrease)	Increase (decrease) due to change in:		Total increase (decrease)
	Average Balance (In Thousands)	Average Rate		Average Balance	Average Rate	
Interest Income						
Due from Banks at Interest	$15,456	$13,902	$ 29,358	$ 5,874	$ (59)	$ 5,815
Federal Funds Sold and Securities Purchased Under Resale Agreement	4,653	6,920	11,573	9,628	691	10,319
Loans	39,518	43,736	83,254	25,247	(1,600)	23,647
U.S. Goverment Obligations	(3,735)	-	(3,735)	3,376	(41)	3,335
U.S. Goverment Agency Obligations	1,517	114	1,631	3,657	20	3,677
Obligations of States and Political Subdivisions	8,234	294	8,528	(6,902)	(4,803)	(11,705)
Other Securities, including trading account securities	1,819	1,096	2,915	1,464	(18)	1,446
Total Interest Income	67,462	66,062	133,524	42,344	(5,810)	36,534
Interest Expense						
Deposits						
Savings	(2,870)	(86)	(2,956)	5,480	228	5,708
Time	17,916	14,256	32,172	2,978	(230)	2,748
Foreign Branches	24,387	22,208	46,595	11,344	232	11,576
Federal Funds Purchased and Securities Sold Under Repurchase Agreements	13,305	15,844	29,149	13,798	1,460	15,258
Notes and Convertible Debentures	(192)	199	7	13	13	26
Total Interest Expense	52,546	52,421	104,967	33,613	1,703	35,316
Change in Net Interest Income	$14,916	$13,641	$ 28,557	$ 8,731	$(7,513)	$ 1,218
Percentage Change in Net Interest Income Over Prior Period			16.5%			0.7%

NATIONAL BANCSHARES CORPORATION OF TEXAS

The following table presents rates earned on average earning assets and incurred on average interest-bearing funds for the five years ended December 31, 1978.

Schedule of Rates Earned and Incurred

	1978	1977	1976	1975	1974
Average rates on earning assets:					
Loans	10.44%	9.38%	9.40%	9.72%	10.44%
Time deposits with banks	7.45	5.83	6.50	6.59	8.00
Federal funds sold	7.84	5.64	5.05	5.82	10.37
Investment securities:					
Taxable	7.10	6.48	7.12	6.59	7.28
Tax-exempt	8.52	7.94	7.78	7.90	7.89
Other earning assets	4.21	5.42	6.23	6.51	6.49
Total earning assets	9.47	8.14	8.10	8.41	9.61
Average rates on interest-bearing funds:					
Savings and time deposits	6.26	5.45	5.64	6.15	6.90
Federal funds purchased	7.86	5.62	5.00	5.71	10.48
Other short-term funds	9.78	6.68	6.06	9.46	10.73
Long-term debt	12.75	-	-	-	-
Total interest-bearing funds	6.49	5.47	5.55	6.09	7.42
Net interest margin as a percent of average earning assets	4.99%	4.36%	4.42%	4.42%	4.97%

The following table attributes changes in net interest margin either to changes in rates on or to changes in volume of earning assets and interest-bearing funds for the years 1978 compared with 1977 and 1977 compared with 1976.

Analysis of Changes in Net Interest Margin

	1978/1977			1977/1976		
	Net Increase (Decrease)	Due to Changes in		Net Increase (Decrease)	Due to Changes in	
		Rates	Volume		Rates	Volume
Interest income:						
Loans	$12,771	3,768	9,003	4,117	(76)	4,193
Time deposits with banks	(570)	280	(850)	991	(14)	1,005
Federal funds sold	(1,271)	1,405	(2,676)	(72)	456	(528)
Investment securities:						
Taxable	416	471	(55)	1,798	(270)	2,068
Tax-exempt	2,100	732	1,368	1,504	166	1,338
Other earning assets	17	(12)	29	(48)	(21)	(27)
Total interest income	13,463	6,644	6,819	8,290	241	8,049
Interest expense:						
Savings and time deposits	4,841	3,043	1,798	4,283	(567)	4,850
Federal funds purchased	1,411	1,074	337	(138)	253	(391)
Other short-term funds	571	143	428	140	11	129
Long-term debt	10	5	5	-	-	-
Total interest expense	6,833	4,265	2,568	4,285	(303)	4,588
Net interest margin	$ 6,630	2,379	4,251	4,005	544	3,461

EXAMPLES Statistical disclosures relating to foreign operations

SUMITOMO BANK OF CALIFORNIA

Foreign Operations

The Bank considers its foreign operations to represent business conducted by its overseas office in Nassau, and international transactions handled by its International Divisions, in San Francisco and Los Angeles, and Head Office. Assets, deposits and other liabilities are considered related to foreign operations on the basis of (a) foreign domicile of the Bank's customers or (b) foreign domicile of the assets, deposits and other liabilities.

Because of the integrated nature of the Bank's international and domestic operations, however, the distinction between the international and domestic business must be in part arbitrary. Therefore, it is impossible to segregate precisely the respective contributions to income from the international and the domestic operations. Based on internal cost allocations, which involve estimates and certain subjective assumptions, income and expenses primarily relating to funding and overhead expenses are allocated between international and domestic operations. Subject to the above limitations, presented below is an estimate of international operation's contribution, in amounts and percentages, to the Bank's operating revenue and income before taxes for the year ended December 31, 1978.

	Amount (In thousands)	Percent
Total operating revenue	$17,961	17.0%
Income before taxes	2,389	27.4

Income and expenses are not compiled on a country by country basis within the Bank. Therefore, the Bank is unable to distribute total operating income or income before taxes to individual countries and geographical areas.

The following table shows an analysis of the Bank's foreign loan portfolio as of December 31, 1978.

	International Divisions (In thousands)	Overseas Office	Total
Banks	$11,000	$ 21,847	$ 32,847
Other financial institutions	-	13,728	13,728
Governments and official institutions	-	36,325	36,325
Commercial	26,199	59,246	85,445
Total	$37,199	$131,146	$168,345

The following table reflects a distribution of foreign loans and interest-bearing deposits with banks, classified by domicile of the borrower.

	December 31, 1978	
	Loans (In thousands)	Interest-Bearing Deposits with Banks
Asia and the Pacific	$ 25,516	$9,910
Europe	52,226	-
Caribbean, Central and South America	63,713	-
Africa	24,723	-
North America	2,167	-
Total	$168,345	$9,910

A geographical distribution of total foreign assets is not available; however, foreign loans and interest-bearing deposits with banks represented approximately 90 percent of such total foreign assets at December 31, 1978.

Of the foregoing, at December 31, 1978, the Bank did not have 5 percent or more of its total assets attributable to any one foreign country.

Deposits by type of depositor of the Bank's foreign operations at December 31, 1978, were as follows:

	International Divisions	Overseas Office	Total
	(In thousands)		
Deposits of banks located in foreign countries	$5,963	$54,000	$59,963
Other deposits	1,433	628	2,061
Total	$7,396	$54,628	$62,024

FIRST CITY BANCORPORATION OF TEXAS, INC.

INTERNATIONAL BANKING

International banking services are provided primarily by First City National Bank of Houston and its foreign branches in London and Nassau, and representative offices in Tokyo and Singapore. International operations are defined as loans, other revenue-producing assets, and deposit liabilities in which the debtor or customer is domiciled outside the United States. A summary of income and the percentage of respective consolidated amounts for the years ended December 31, 1978 and 1977 attributable to international operations is as follows:

Income Summary

	1978		1977	
	(Dollars in Thousands)			
Total revenue	$63,891	12.04%	$43,152	10.97%
Total expenses	58,302	12.59	38,820	11.47
Income before income taxes and securities transactions	5,589	8.24	4,332	7.90
Net income	2,907	5.74	2,253	5.33

Because many of the resources employed by the Company are common to both its international and domestic activities, it is difficult to make a determination of the results of international operations. The amounts in the preceding table were estimated on the basis of internally developed allocation procedures, which are to a degree subjective. The following table presents selected average balances of international assets and liabilities:

Average Balance Sheet

	1978	1977
	(Dollars in Thousands)	
Cash and due from banks	$ 4,360	$ 2,660
Interest bearing deposits at banks	430,496	361,559
Loans	261,306	230,897
Less: reserve for loan losses	(1,167)	(787)
Net loans	260,139	230,110
Investment securities	6,674	4,385
Customers' acceptances	67,363	15,257
Total	$769,032	$613,971
Demand deposits:		
Banks in foreign countries	$ 9,820	$ 7,493
Government and official institutions	2,479	3,167
Other	13,999	12,522
Time and savings deposits	669,755	566,563
Domestic funds borrowed	5,616	8,969
Customers' acceptances	67,363	15,257
Total	$769,032	$613,971

The following table presents the composition of international loans at December 31, 1978:

Loans

	Domestic Offices	Foreign Offices	Total International Loans	Percentage of Total International Loans
	(Dollars in Thousands)			
Loans to or guaranteed by banks	$46,204	$ 10,903	$ 57,107	24.78%
Loans to or guaranteed by national governments, governmental agencies or central banks	20,213	54,336	74,549	32.34
Other loans, substantially all to businesses	23,364	75,463	98,827	42.88
Total	$89,781	$140,702	$230,483	100.00%

Geographic Distribution

The following table presents principal international earning assets by geographic area as of December 31, 1978 and 1977:

	Loans [1]		Interest-Bearing Deposits at Banks [2]		Total		Percent	
	1978	1977	1978	1977	1978	1977	1978	1977
	(Dollars in Thousands)							
Europe	$ 64,412	$ 51,856	$296,330	$292,268	$360,742	$344,124	42.47%	47.51%
Latin America	118,304	104,959	235,029	171,583	353,333	276,542	41.59	38.18
Far East	35,780	27,824	27,688	48,000	63,468	75,824	7.47	10.47
Other countries	11,987	7,004	60,000	20,900	71,987	27,904	8.47	3.84
Total	$230,483	$191,643	$619,047	$532,751	$849,530	$724,394	100.00%	100.00%

[1] Loans are distributed on the basis of the location of the head office or residence of the obligor. At December 31, 1978, approximately 17% of total loans were guaranteed by either a private or public domestic enterprise.

[2] Interest-bearing deposits at banks are distributed on the basis of the location of the branch with which the deposits are carried. Approximately 32% of such deposits were with overseas branches or subsidiaries of United States banks.

International operations are subject to special risks such as currency devaluation, exchange controls, and other regulatory and political policies of governments. The Company attempts to minimize such risks by matching international loans with foreign currency hedging activities. Other foreign exchange activities arise primarily from servicing our customers' needs.

The inherent risk is primarily the exposure of the net open position to fluctuations in market rates and the creditworthiness of customers. Credit risk and dealer activity are subject to guidelines and review by management.

FIRST CHICAGO CORPORATION

Foreign Operations

Balance Sheet

Deposits Placed

Deposits placed with banks which are located in foreign countries were $3.1 billion as of December 31, 1978 and $3.0 billion as of December 31, 1977.

Loans in Overseas Offices

While international credit transactions in some countries involve risks not present in domestic transactions, these risks are reduced by the wide geographic dispersion of the Corporation's international activities and by the availability, in connection with certain transactions, of governmental guarantees or insurance against political and similar risks. At December 31, 1978 approximately 46% of the loans in the international portfolio were made to or guaranteed by governments or governmental agencies.

The following table shows the composition of loans in overseas offices at December 31, 1978 and 1977:

	1978		1977	
	Amount (In Thousands)	Percent	Amount (In Thousands)	Percent
Banks	$ 422,368	10%	$ 637,610	14%
Other financial institutions	348,519	8	311,889	7
Governments and official institutions	1,368,865	31	1,229,187	28
Consumer	2,973	-	3,115	-
Commercial	2,195,362	49	2,203,233	49
Real estate	54,862	1	93,483	2
Other	45,335	1	11,255	-
Total	$4,438,284	100%	$4,489,772	100%

The following table shows loans in overseas offices by geographic area as of December 31, 1978 and 1977 based on the location of the guarantor or obligor:

	1978		1977	
	Amount (In Thousands)	Percent	Amount (In Thousands)	Percent
Continental Europe	$ 951,230	22%	$1,051,023	23%
British Isles--Scandinavia	877,749	20	848,254	19
Latin America	898,542	20	921,680	21
North America--Caribbean	503,073	11	458,681	10
Middle East--Africa	662,208	15	596,689	13
Asia--Pacific	545,482	12	613,445	14
Total	$4,438,284	100%	$4,489,772	100%

Loans in overseas offices as of December 31, 1978 classified by annual per capita income level of the guarantor's or borrower's country of residence are shown in the following table. Classification of countries by per capita income levels is derived from current International Bank for Reconstruction and Development data.

	1978	
	Amount (In Thousands)	Percent
Countries with per capita incomes of		
$2,000 or more	$2,810,297	63%
$500-$1,999	1,265,132	29
$200-$499	359,721	8
Less than $200	3,134	-
Total	$4,438,284	100%

Deposits

The following table shows the composition of deposits in overseas offices at December 31, 1978 and 1977 (in thousands):

	1978	1977
Banks located in foreign countries	$3,549,706	$3,814,190
Foreign governments, central banks, official and international institutions	898,517	1,193,735
Other	3,265,747	2,515,813
Total	$7,713,970	$7,523,738

Other Borrowings

Other borrowings from foreign sources were $386,867,000 at December 31, 1978 and $274,874,000 at December 31, 1977.

CHEMICAL NEW YORK CORPORATION

International Loans and Assets--Distribution

International loans are to borrowers domiciled outside the United States. As such, a borrower's ability to repay can be affected by the stability of its nation's political institutions and by the ability of the country to earn sufficient foreign exchange to meet its obligations. Chemical manages this 'country risk' through continuous evaluations of economic and political trends. Based on these analyses, country limits are set which specify the aggregate amount of credit exposure management has judged to be prudent.

The following table classifies the international loan portfolio on the basis of the economic grouping in which the borrower's country is categorized. Per capita income classifications are derived from International Bank for Reconstruction and Development (World Bank) data.

	December 31 1978 (In millions)
Developed (OECD) countries	$4,243
Oil exporting countries (OPEC)	1,176
Centrally planned economies	325
Other countries:	
(Per capita income--$500 and over)	2,211
(Per capita income--$200--$499)	444
(Per capita income--under $200)	51
Total	$8,450

The largest proportion of international loans is to borrowers in developed and oil exporting countries. The majority of Chemical's loans to countries with per capita income of $500 and over is to the more industrialized countries in Latin America where Chemical has long experience in lending. Lending to countries with per capita income under $500 is on a selective basis with emphasis placed on financing trade and project related activities. In relation to the total international loans and the size of Chemical's loan portfolio, these loans represent a manageable level of risk. Loans of approximately $15 million to those countries were included in nonperforming status at December 31, 1978.

The geographic distribution of average international loans and total assets for 1978 and 1977 is presented in the table below.

Geographic Distribution of Average International Loans and Total Assets

	1978		1977	
	Loans (In millions)	Total Assets	Loans	Total Assets
North America	$ 839	$ 1,684	$ 665	$ 1,411
Europe	3,175	6,300	2,528	5,409
Latin America	2,048	2,436	1,648	1,979
Middle East and Africa	810	1,068	574	757
Asia and Pacific	1,150	1,893	909	1,538
Total	$8,022	$13,381	$6,324	$11,094

Except for the United Kingdom, Chemical does not have in any foreign country average assets in excess of 5% of its consolidated average assets. The average assets attributable to the United Kingdom (primarily loans and time deposits with banks, many of which are headquartered outside the United Kingdom) were approximately $2.1 billion, or 6.7% of consolidated average assets in 1978.

SECTION I

Filings with the SEC on Form 10-K

Relationship of SEC to banks and bank holding companies

Banks generally have been exempted from the provisions of the Securities Act of 1933 Section (3(a)(2)). The powers of the Securities and Exchange Commission under the Securities Exchange Act of 1934 with respect to the regulation of bank securities, periodic reports, proxies, etc., have generally been vested in Federal bank regulatory agencies (1934 Act, Section 12(i)). The applicable rules and regulations issued by the Federal bank regulatory agencies pursuant to the requirements of the Securities Exchange Act of 1934 are:

Type of Bank	Regulatory Authority	Reference
National bank	Comptroller of the Currency	12 CFR, Part 11
Federal Reserve member state bank	Federal Reserve Board	12 CFR, Part 206
Insured nonmember state bank	Federal Deposit Insurance Corporation	12 CFR, Part 335

Banks which are not affiliated with bank holding companies, therefore, are subject to the rules and regulations issued by the respective Federal regulatory authorities pursuant to the provisions of the 1934 Act. Under Public Law 93-495, the rules and regulations issued by the Federal Deposit Insurance Corporation, Comptroller of the Currency, and the Federal Reserve Board are to be "substantially similar" to those issued by the SEC under certain specified sections of the 1934 Act.

As banks are acquired by bank holding companies, the banks' reports are included with the holding company's which is subject to the rules and regulations of the Securities and Exchange Commission. A "bank holding company" is defined by Rule 1-02 of Regulation S-X as ". . . a person which is engaged, either directly or indirectly, primarily in the business of owning securities of one or more banks, for the purpose and with the effect, of exercising control."

The SEC's Form 10-K requirements are included in the Instructions to Form 10-K, along with other General Instructions under Regulations 12B, 13A, and 15D under the 1934 Act, and Regulations S-K and S-X. The Guides for Preparation and Filing of Reports and Registration Statements under the Securities Exchange Act of 1934, while not rules of the SEC, should be viewed as authoritative references for preparation of Form 10-K.

Article 9 of Regulation S-X provides instructions as to the form and content of *consolidated* financial statements of bank holding companies and financial statements of banks filed with the Commission. These instructions require that parent company only financial statements and schedules be prepared in accordance with Article 5 of Regulation S-X as modified by Article 9. In addition, Articles 1, 3, 4, 11, 11A, and 12 of Regulation S-X apply to financial statements and schedules of bank holding companies and banks.

Article 9 of Regulation S-X

In Accounting Series Release (ASR) No. 254 the Securities and Exchange Commission revised Article 9 of Regulation S-X. The new rules are effective for financial statements covering periods beginning after December 24, 1978; however, the SEC strongly encouraged early compliance for December 31, 1978 financial statements.

Revised Article 9 eliminates reference to Regulation F of the Federal Reserve Board for the form and content of financial statements and schedules. While the Article 9 provisions for parent company financial statements have changed, they should not change present reporting practices. The changes merely formalize reporting practices of parent companies and various administrative positions of the SEC staff. The significant changes in existing reporting practices for consolidated financial statements of banks are in the following areas:

1. Format of income statement; format of balance sheet changes very little
2. Foreign activities
3. Related party loans and borrowings and schedule I
4. Investment securities
5. Disclosure of concentration of investments
6. Loan categories

Reference should be made to Section A for a more complete summary of the release and its provisions.

All examples included in the section of consolidated schedules filed conform to the revised Article 9 format for the year ending December 31, 1978. Ten of the 10-K reports filed for 1978 had at least one schedule using the revised format. Parent company only schedules are not changed by the revision.

ASR No. 236—Industry Segment Reporting

The SEC has issued new rules which closely conform the previously required line of business reporting with FASB Statement No. 14—"Financial Reporting for Segments of a Business Enterprise." The rules are included in Regulation S-K, the SEC's integrated instruction regulation, which includes requirements for business and property descriptions. These rules are effective for years beginning after December 15, 1976.

Since banks and bank holding companies generally constitute a single industry segment, the major impact of Regulation S-K on the banking industry relates to disclosure of foreign operations. Further, information presently furnished about the registrant's business (including foreign activities), pursuant to Guide 3 of the Guides for the Preparation and Filing of Reports and Proxy and Registration Statements under the Securities Exchange Act of 1934, fulfills the requirements of Regulation S-K. Guide 3 leaves the definition of foreign operations to the registrant; however, the SEC has indicated that the definition of foreign activities in the new Article 9 applies to the foreign operations section of the statistical disclosures required by the Guide.

Item 1. Business

Guide 3—Statistical disclosures by bank holding companies. Guide 3 of the Guides for Preparation and Filing of Reports and Registration Statements under the Securities Exchange Act of 1934 specifies statistical disclosures to be made by bank holding companies in filings with the SEC. Although Guide 3 applies to the description of business portion of bank holding company reports filed on Form 10-K, alternative presentations, such as inclusion of all or part of the information in Management's Discussion and Analysis of the Summary of Operations (Item 2), may be used if in management's judgement such a presentation would be more meaningful. Disclosure items specified by Guide 3 are summarized below.

1. Distribution of assets, liabilities and shareholders' equity—average amounts of assets, liabilities and shareholders' equity, with percentages, and separate disclosure of those attributable to foreign operations if materiality criteria are met.
2. Investment portfolio—analysis by four categories of investment, the amounts maturing in specified maturity ranges, and weighted average yields.
3. Loan portfolio—analysis by loan type, maturities and sensitivity to changes in interest rates, and "nonperforming loans."
4. Summary of loan loss experience—by loan categories for a five-year period, description of factors influencing loss provisions, and loan loss reserve allocation to eight specified loan categories.
5. Deposits—average amounts, and range of maturities of certificates of deposit over $100,000 at year end.

6. Return on equity and assets—return on equity and assets, dividend payout ratio, and equity to assets ratio.
7. Interest rates and interest differential—average amounts of interest-earning assets and interest-bearing liabilities, average rates earned and paid, and analysis of variances resulting from rates, and volume.
8. Foreign operations—disclosure of principal assets, liabilities, revenues and income before taxes; discussion of foreign exchange activities and the types of risks associated therewith.
9. Commitments and lines of credit—discussion of practices and disclosures of any firm commitments representing material and unusual risks.

All Form 10-K reports surveyed generally met the Guide 3 disclosure requirements. Table 65 shows how many companies met each of the disclosure requirements of Guide 3. In some cases companies may not have made disclosure of an item because they did not meet the materiality criteria specified in Guide 3.

Table 66 shows the locations in Form 10-K reports where these Guide 3 disclosures were made. In 1978, many of the companies in the survey split the disclosures between Item 1—Line of Business and Item 2—Management's Discussion and Analysis of the Summary of Operations.

Table 75 summarizes the practices of the survey companies as to incorporation of statistical disclosures by reference to the annual report to shareholders. Approximately 45 to 50% of the survey companies incorporated this information by reference in 1978 and 1977.

Table 75. Guide 3 Disclosures in Form 10-K

	Total Companies	
	78	77
ITEM 1 (Average balance sheet)		
Daily average balance sheet amounts and percentages	50	50
Percentage of assets and liabilities attributable to foreign operations	24	34
ITEM 2 (Investment portfolio)		
Investment portfolio amounts, by category, for five years*	49	49
Investment maturities, by category, for the most recent year	49	50
Weighted average yields, by category, for the most recent year	49	50
Yields computed on a tax equivalent basis	45	44
ITEM 3 (Loan portfolio)		
Outstanding loans, by major categories, for five years*	50	47
Loan maturities for the most recent year	49	48
Loans due after 1 year categorized by fixed or floating interest rate	49	48
Non-performing loans	50	50
ITEM 4 (Summary of loan loss experience)		
Summary of credit loss experience	50	50
Allocation of allowance for credit losses by loan category	46	46
Discussion of risk characteristics of loan portfolio in lieu of allocation of allowance	4	
ITEM 5 (Deposits)		
Daily average deposits for each reported period	50	50
Maturities of certificates of deposit over $100,000 at year end	50	50
ITEM 6 (Return on equity and assets)		
Return on equity and assets for each reported period	50	50

(continued)

Table 75. Guide 3 Disclosures in Form 10-K (continued)

	Total Companies	
	78	77
ITEM 7 (Interest rates and differential)		
Analysis of net interest earnings	50	50
Rate/volume analysis	50	49
Foreign operations disclosed in analysis	39	35
ITEM 8 (Foreign operations)		
Daily average balance with banks, loans, deposits and other borrowings	37	37
Assets by geographic location	36	38
Revenue and income before taxes by geographic location	22	34
ITEM 9 (Commitments and lines of credit)		
Commitments and lines of credit	50	49

*In 1978, three companies presented daily averages instead of year end amounts.

Table 76. Location of Guide 3 Disclosures in Form 10-K

	DISCLOSURE ITEM																	
	1		2		3		4		5		6		7		8		9	
	78	77	78	77	78	77	78	77	78	77	78	77	78	77	78	77	78	77
Total Companies																		
Line of business	37	16	33	22	28	17	30	21	32	24	38	21	22	8	17	14	33	25
Summary of operations and management's discussion and analysis	9	26	9	19	9	20	9	20	9	20	12	28	18	28	11	19	10	15
Both line of business and summary of operations and management's discussion and analysis	4	8	7	7	12	11	10	8	9	5		1	9	14	7	5		1
Notes to financial statements																2	6	7
Line of business, summary of operations, management's discussion and analysis, and notes to financial statements			1	2	1	2	1			1			1		4		1	1
Not applicable															11	10		1
	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50

Table 77. Guide 3 Disclosures Incorporated by Reference

	DISCLOSURE ITEM																	
	1		2		3		4		5		6		7		8		9	
	78	77	78	77	78	77	78	77	78	77	78	77	78	77	78	77	78	77
Total Companies																		
All incorporated by reference to annual report to shareholders or prospectus	17	21	14	16	12	17	11	17	13	15	17	21	16	14	12	16	12	14
Selected portions incorporated by reference	4	7	6	7	11	9	7	7	6	4	2	1	6	12	5	5		
None incorporated	29	22	30	27	27	24	32	26	31	31	31	28	28	24	33	29	38	36
	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50

EXAMPLES Index To Guide 3 Disclosures

CHEMICAL NEW YORK CORPORATION

(Excerpt from FORM 10-K INDEX)

	Page
Part I	
Item I	
Business	
Description of business	1
Financial data pertaining to Guide 3:	
Distribution of assets, liabilities and stockholders' equity appears on page 47 of the 1978 Annual Report to Stockholders, which page is incorporated herein by reference	-
Investment portfolio	8
Loan portfolio	11
Summary of loan loss experience	18
Deposits	21
Return on equity and assets	22
Interest rates and interest differential	23
Foreign operations	29
Commitments and lines of credit	33

NATIONAL CITY CORPORATION
(Excerpt from Item I--Description of business)

Supplementary Financial and Statistical Data

The following items of Supplementary Financial and Statistical Data for National City Corporation and Subsidiaries appear on the pages indicated:

	Pages
Financial Statistics	*
Daily Average Balances/Interest Differential/Rates	*
Volume and Rate Variance Analysis of Interest Differential Income	12
Daily Average Balance Sheets and Percentage Distributions	*
Investment Securities	13
Loans	14
Nonperforming Loans	*
Reserve for Loan Losses	14
Allocation of Reserve for Loan Losses	*
Deposits	16
Loan Commitments	17
Foreign Operations	17

Note--All average balances presented in the Supplementary Financial and Statistical Data are daily average balances.

*Reference is made to pages 9 to 11 and 33 to 37 of the 1978 Annual Report to shareholders included herewith.

EXAMPLE Item 1--Distribution of assets, liabilities and shareholders' equity

FIRST WISCONSIN CORPORATION
(Data for 1974, 1975, and 1976 was presented but is deleted from this example)

AVERAGE BALANCE SHEETS

The following condensed balance sheets show the distribution of the Corporation's consolidated average balances of assets, liabilities and stockholders' equity

	1978	%	1977	%
	(Thousands of Dollars)			
Assets				
Cash and Due from Banks and Interest Bearing Deposits at Banks	$1,119,895	26.1%	$1,079,884	26.9%
Investment Securities	568,508	13.3	566,760	14.1
Trading Account Securities	21,982	.5	16,944	.4
Federal Funds Sold and Securities Purchased Under Resale Agreements	90,727	2.1	136,824	3.5
Loans, Net	2,155,218	50.3	1,876,744	46.8
Bank Premises and Equipment	134,372	3.1	137,676	3.4
Customer Acceptance Liability	28,012	.7	19,243	.5
Other Real Estate	104,408	2.5	123,639	3.1
Other Assets	61,822	1.4	52,743	1.3
Total Assets	$4,284,944	100.0%	$4,010,457	100.0%
Liabilities and Stockholders' Equity				
Deposits:				
Domestic Offices--Demand	$1,255,554	29.3%	$1,199,343	29.9%
Domestic Offices--Time	1,541,675	36.0	1,463,864	36.5
Foreign Office	457,017	10.6	461,748	11.5
Total Deposits	3,254,246	75.9	3,124,955	77.9
Short-Term Borrowings	676,135	15.8	559,792	13.9
Bank Acceptances Outstanding	28,012	.7	19,243	.5
Accounts Payable and Accrued Liabilities	66,748	1.5	57,239	1.4
Debentures, Notes and Other Debt	82,032	1.9	78,851	2.0
Total Liabilities	4,107,173	95.8	3,840,080	95.7
Minority Interest in Stockholders' Equity of Subsidiaries	2,242	.1	2,229	.1
Stockholders' Equity	175,529	4.1	168,148	4.2
Total Liabilities and Stockholders' Equity	$4,284,944	100.0%	$4,010,457	100.0%

The following shows, on the basis of average balances, the percentage of total assets and total liabilities attributable to the Corporation's foreign operations.

Assets	20.0%	20.1%
Liabilities	14.4%	15.6%

EXAMPLE Item 2--Investment Portfolio

NATIONAL DETROIT CORPORATION

Investment Securities
National Detroit Corporation and its subsidiaries have concentrated their holdings of U.S. Government securities in issues of short maturity. Investment decisions with regard to tax-exempt securities also emphasize liquidity; however, liquidity in this portfolio is defined more by marketability (i.e., quality) than by maturity.

At the end of 1978, the market values of the U.S. Government and tax-exempt securities were $12 million and $26 million, respectively, below the amortized cost values shown in the Consolidated Balance Sheet of National Detroit Corporation.

Holdings of investment securities averaged $1,334 million during 1978, about $166 million, or nearly 11 percent, below the 1977 level. This reduction in average holdings was concentrated in the U.S. Treasury securities account. Tax-exempt securities were held at a fairly constant level throughout the year. Yields earned on both the taxable and tax-exempt securities improved significantly from the reinvestment of certain 1978 maturities at the higher market rates prevailing during the year. The income earned from tax-exempt securities also benefited somewhat from the program of selective loss-taking during 1978. The full impact of this program will accrue to earnings in 1979 and thereafter.

The book value of the investment securities of National Detroit Corporation, as of the indicated dates, is as follows:

	December 31				
	1978 (in thousands)	1977	1976	1975	1974
National Bank of Detroit:					
Securities Held in Domestic Offices:					
United States Treasury	$ 497,724	$ 531,297	$ 675,532	$ 490,287	$ 421,948
United States Government Agencies	-	-	10,022	13,878	21,957
States and Political Subdivisions	751,358	733,901	803,873	710,080	699,882
Other Bonds, Notes, and Debentures	9,000	9,000	9,000	9,000	8,750
Stocks	9,238	9,059	8,914	8,886	7,920
Securities Held in Foreign Offices	17,496	18,660	10,548	11,538	8,056
Total National Bank of Detroit	$1,284,816	$1,301,917	$1,517,889	$1,243,669	$1,168,513
Other Subsidiaries	40,607	25,068	42,618	32,661	22,822
Total National Detroit Corporation Consolidated	$1,325,423	$1,326,985	$1,560,507	$1,276,330	$1,191,335

The following table shows the maturity distribution and average yields of each type of debt security held in domestic offices of National Bank of Detroit as of December 31, 1978. The average yields were calculated by dividing the annualized income for each category (on a taxable equivalent basis assuming a 48% Federal tax rate) by the cost of the related securities (dollar amounts in thousands):

	United States Treasury		States and Political Subdivisions (Note A)		Other Bonds, Notes, and Debentures	
	Amount	Average Yield	Amount	Average Yield	Amount	Average Yield
Maturing within One Year	$219,384	8.50%	$ 92,642	9.11%	$ -	- %
Maturing after One but within Five Years	204,487	8.34	212,233	9.71	8,500	8.25
Maturing after Five but within Ten Years	73,853	8.40	177,621	10.43	-	-
Maturing after Ten Years	-	-	268,862	11.04	500	5.50
Total	$497,724	8.35%	$751,358	10.20%	$9,000	8.09%

Note A--All securities in this grouping are considered "investment grade."

Except as indicated below, total investment securities of no individual state and its political subdivisions exceeded 10% of National Detroit Corporation's shareholders' equity at December 31, 1978. At that date, the book value of investment securities issued by the State of Michigan and all its political subdivisions totaled approximately $308 million. The average maturity of these securities was 9½ years. Although they represent a wide range of ratings, they are all "investment grade," with the majority rated A1 (Moody's). No single issuer within the state exceeded 5% of National Detroit Corporation's shareholders' equity at December 31, 1978.

EXAMPLES Item 3--Loan Portfolio And Nonperforming Loans

MARYLAND NATIONAL CORPORATION

LOANS

The table below shows the classification of consolidated Loans (before deduction of unearned discount and the reserve for loan losses) by major category at December 31 in each of the past five years:

	December 31				
	1978	1977	1976	1975	1974
	(In thousands of dollars)				
Real Estate Loans:					
Construction, Land Development and Other Real Estate	$ 251,984	$ 273,106	$ 264,614	$ 268,363	$ 273,822
Secured by 1-4 Family Residential Properties	340,214	306,472	265,680	237,213	238,668
Loans to Financial Institutions:					
REIT's and Mortgage Companies	28,604	32,994	25,052	48,008	50,302
Domestic Commercial Banks	3,173	2,762	19,380	2,717	2,782
Banks in Foreign Countries	15,149	12,551	21,672	58,174	23,577
Other Depository Institutions	39,499	23,364	25,731	41,864	44,465
Other Financial Institutions	24,946	11,978	10,564	11,188	27,248
Loans for Purchasing or Carrying Securities	30,104	42,677	9,977	7,947	12,588
Loans to Farmers	6,916	8,659	7,162	6,074	6,985
Commercial and Industrial Loans	549,699	478,132	472,424	380,391	368,498
Loans to Individuals	629,248	595,174	480,159	387,169	321,275
All Other Loans Attributable to Domestic Operations	54,111	64,008	69,408	45,665	26,028
Loans Attributable to Foreign Branch	51,562	59,679	53,446	48,854	35,358
Total Gross Loans	$2,025,209	$1,911,556	$1,725,269	$1,543,627	$1,431,596

SELECTED LOAN MATURITIES AND INTEREST RATE SENSITIVITY

The following table shows the remaining maturities of selected loans at December 31, 1978. The table excludes loans secured by 1-4 family residential properties and loans to individuals for household, family and other personal expenditures.

	One Year or Less	Over One Year Through Five Years	Over Five Years	Total
	(In thousands of dollars)			
Loans in Domestic Offices:				
Construction, Land Development and Other Real Estate	$ 31,753	$ 50,970	$169,261	$ 251,984
Commercial and Industrial	264,213	245,869	39,617	549,699
Other Loans Excluding Loans to Individuals and 1-4 Family Residential	137,975	59,564	4,963	202,502
Loans Attributable to Foreign Branches	20,170	23,592	7,800	51,562
Total	$454,111	$379,995	$221,641	$1,055,747

The following table shows for the above selected loans the amount which have predetermined interest rates and the amount which have floating interest rates at December 31, 1978.

	One Year or Less	Over One Year Through Five Years	One Five Years	Total
	(In thousands of dollars)			
Loans With Predetermined Rate	$295,698	$206,868	$209,231	$ 711,797
Loans With Floating Rate	158,413	173,127	12,410	343,950
Total	$454,111	$379,995	$221,641	$1,055,747

RECOGNITION OF LOAN INTEREST INCOME

The Corporation recognizes income principally on the accrual basis of accounting. In determining income recognition on commercial, industrial and construction loans, the Corporation, in general, follows the policy that no interest shall be accrued unless collected in respect to loans on which a default of principal or interest has existed for a period of 60 days, except for loans secured by collateral the ascertained value of which is at least equal to the amount at which the loan is carried plus all interest accrued thereon, or loans justified by repayment expectation. Accrual of interest on installment loans is suspended at the time of write-off and on real estate mortgages upon the initiation of foreclosure proceedings. Where interest is being charged at reduced rates such interest is accrued at the lower rate. When a loan is placed on a cash-basis any interest previously accrued but not yet collected is reversed against current income. Any subsequent interest on such a loan is recorded as interest income only when received. A loan is restored to accrual status when, in the opinion of management, the borrower's financial condition indicates the ability to make future payments of interest as scheduled.

CASH-BASIS AND REDUCED-RATE LOANS

The consolidated cash-basis and reduced-rate loans is presented below: Data for 1974 is not available

	Year Ended December 31,			
	1978	1977	1976	1975
	(In thousands of dollars)			
Construction, Land Development and Other Real Estate	$13,145	$14,960	$35,045	$55,826
Loans to REIT's and mortgage companies	181	1,287	5,866	12,000
Commercial and Industrial Loans	11,147	9,513	8,796	7,147
Total	$24,473	$25,760	$49,707	$74,973
Total as a percent of Loans	1.2%	1.4%	2.9%	4.9%
Interest at Original Contractual Rates	$ 2,248	$ 2,621	$ 4,770	$ 7,503
Less: Interest Actually Accrued	669	384	207	984
Interest Not Recognized in Operations	$ 1,579	$ 2,237	$ 4,563	$ 6,519
Per Share Effect (After Taxes) of Interest Not Recognized	$ .11	$ .16	$ .33	$ .44

NON-PERFORMING LOANS

Delinquencies

The following table presents information on loans past due 60 days or more for the four years ended December 31, 1978. Information for December 31, 1974 is unavailable.

	Gross		
	60 or More (1) Days	Outstanding	Percentage 60 Days or More Past Due
	(In thousands of dollars)		
December 31, 1978:			
Construction, Land Development, and Other Real Estate	$17,747	$ 251,984	7.04%
Loans to REIT's Mortgage Companies	197	28,604	.69
Loans to Individuals	8,963	629,248	1.42
Commercial and Industrial	13,165	549,699	2.39
All Other Loans (2)	552	225,460	.24
Total (2)	$40,624	$1,684,995	2.41%
December 31, 1977:			
Construction, Land Development, and Other Real Estate	$30,425	$ 273,106	11.14%
Loans to REIT's and Mortgage Companies	2,502	32,994	7.58
Loans to Individuals	6,802	595,174	1.14
Commercial and Industrial	9,924	478,132	2.08
All Other Loans (2)	548	225,678	.24
Total (2)	$50,201	$1,605,084	3.13%
December 31, 1976:			
Construction, Land Development, and Other Real Estate	$38,887	$ 264,614	14.70%
Loans to REIT's and Mortgage Companies	5,866	25,052	23.42
Loans to Individuals	4,647	480,159	.97
Commercial and Industrial	13,268	472,424	2.81
All Other Loans (2)		217,340	
Total (2)	$62,668	$1,459,589	4.29%
December 31, 1975:			
Construction, Land Development, and Other Real Estate	$62,507	$ 268,363	23.29%
Loans to REIT's and Mortgage Companies	12,354	48,008	25.73
Loans to Individuals	3,354	387,169	.87
Commercial and Industrial	15,818	380,391	4.16
All Other Loans (2)		222,483	
Total (2)	$94,033	$1,306,414	7.20%

1. Includes loans aggregating $24,473, $25,760, $49,707 and $74,973 for the years ended December 31, 1978 to 1975, respectively, on a cash and reduced-rate basis. See "Cash-basis and Reduced-rate loans".

2. Excluding loans secured by 1-4 family residential property.

J.P. MORGAN & CO., INCORPORATED

Nonperforming Loans

On most of Morgan's loans, payments of interest and principal are made on a timely basis and in accordance with the original terms of the loan agreement. However, for some loans this is not the case, and special accounting procedures are adopted for these nonperforming loans as discussed in the following paragraphs:

Nonaccrual Loans. There are two types of nonaccrual loans--nonincome-producing and cash basis.

Nonincome-producing loans are loans on which total expected future cash receipts (including both those designated as interest and those designated as principal) are less than or equal to the current legal claim. All receipts on these loans, whether designated principal or interest, are applied first against principal. In the quarter in which a loan is first classified as nonincome-producing, all interest accrued but not collected is reversed against interest income.

Cash basis loans are loans 30 days past due and loans on which the amount or timing of interest to be received is not considered susceptible to reasonable estimation but with respect to which it is expected that cash will be received from time to time and that principal will be fully recovered. Management may remove a loan from this category if it determines either that any payment default will be waived or cured or that the value of any collateral is sufficient to cover the principal of the loan and interest which is accruing. Interest on these loans is taken into income as received. In the quarter in which a loan is first included in cash basis loans, all interest accrued but not collected is reversed against interest income.

Renegotiated Loans. Renegotiated loans include reduced rate loans on which principal is expected to be fully recovered and, in addition, a reduced rate of interest is expected to be earned. Interest is accrued at the lower of the rate legally payable or the constant effective interest rate over the life of the loan.

Renegotiated loans also include loans on which the rate has not been reduced but on which the bank, because of the borrower's financial problems, has been forced to grant a concession it would not make in the normal course of business. There is no special treatment of interest earnings on these loans.

For the amount of nonperforming loans and their effect on Morgan's income, see Note 3 of notes to financial statements which appears on page A-14 of the Appendix to this Form 10-K. This note should be read in conjunction with the financial statements and notes thereto which are included on pages A-2 through A-25 of the Appendix to this Form 10-K.

An analysis of changes in nonperforming loans in 1978 follows:

	In millions
Nonperforming loans at January 1	$327.8
Additions to nonperforming loans	35.8
Less: Repayments of principal (net of additional advances)	99.2
Loans reclassified as performing	34.1
Exchanges	37.1
Charge-offs	16.8
Interest and other credits	5.5
Nonperforming loans at December 31	$170.9

EXAMPLES Item 4--Summary of loan loss experience

WACHOVIA CORPORATION

LOAN LOSS EXPERIENCE

The Corporation has historically evaluated the adequacy of its reserve for loan losses on an overall basis and the resulting provision charged against income has been determined on an overall basis. In determining the adequacy of its reserve for loan losses, the Corporation has considered such factors as its historical loan loss experience, its current loan losses, current problem loans and economic conditions, closely matching the provision with the incidence of credit risk and the generation of income.

Although the Corporation did not divide its reserve for loan losses by loan categories prior to 1976, the reserve has been allocated in the tabulation which follows by major categories of loans. The allocation represents only an estimate for each category of loans based upon historical loss experience and management judgment. Approximately 42% remains unallocated as a general valuation reserve for the entire portfolio to cover unexpected variations from historical experience in individual loan categories.

The allocation of the reserve to commercial loans is based on .3% of average outstanding loans plus average outstanding unused loan commitments. The average loss experience on commercial loans for the past five years was .06% of average outstanding loans and the highest loss ratio for a single year in that period has been .14% of average outstanding loans. The allocation of the reserve to consumer loans was set at a level of .75% of average outstanding loans. The average loss experience on consumer loans for the past five years was .32% and the highest loss ratio for a single year during that period has been .52% of average outstanding loans. The allocation of the reserve to real estate loans was set at a level of .75% of average outstanding loans for the bank plus the reserve provided in the mortgage company. Loss experience of real estate loans has averaged .77% for the past five years and the highest loss ratio during the period was 2.01% of average outstanding loans. Loan balances are stated net of unearned income.

Loan losses, recoveries and reserve balances are not provided in the eight major categories specified since historical records were not maintained on this basis. Moreover, Registrant does not find the specified categories meaningful to the determination of the adequacy of its loan loss reserve or appropriate for the allocation of such reserve. The data has been broken down into commercial, consumer, real estate and money market loans. Registrant believes these classifications are more meaningful for its operations.

	1978	1977	1976	1975	1974
	(Dollars in Thousands)				
Total loans and reserve:					
Loans outstanding at end of period	$2,221,963	$1,889,312	$1,670,361	$1,584,852	$1,755,046
Average loans outstanding	$2,030,076	$1,777,894	$1,571,715	$1,604,378	$1,795,729
Reserve for losses at beginning of period	$ 22,351	$ 22,489	$ 24,760	$ 22,706	$ 21,427
Provision for loan losses	4,163	900	2,528	8,473	5,488
Loans charged off	(3,182)	(2,568)	(5,766)	(7,509)	(5,125)
Recoveries on loans	823	1,530	967	1,090	916
Reserve for losses at end of period	$ 24,155	$ 22,351	$ 22,489	$ 24,760	$ 22,706
Ratio of net loan losses to average loans	.12%	.06%	.31%	.40%	.23%
Commercial loans and reserve:					
Loans outstanding at end of period	$1,228,706	$926,165	$797,095	$812,510	$978,219
Average loans outstanding	$1,062,352	$867,357	$777,929	$841,699	$973,998
Reserve for losses at beginning of period	$ 5,760	$ 5,282	$ 5,243	$ 5,158	$ 4,218
Provision for loan losses	1,735	475	114	1,223	1,443
Loans charged off	(1,413)	(429)	(261)	(1,520)	(979)
Recoveries on loans	257	432	186	382	476
Reserve for losses at end of period	$ 6,339	$ 5,760	$ 5,282	$ 5,243	$ 5,158
Percent of loans to total loans at end of period	55.3%	49.0%	47.7%	51.3%	55.7%
Ratio of net loan losses to average loans	.11%	–	.01%	.14%	.05%
Consumer loans and reserve:					
Loans outstanding at end of period	$ 814,247	$714,181	$583,353	$510,698	$551,585
Average loans outstanding	$ 749,946	$639,762	$543,915	$516,912	$551,162
Reserve for losses at beginning of period	$ 4,798	$ 4,079	$ 3,877	$ 4,133	$ 3,272
Provision for loan losses	2,028	1,829	2,038	2,417	3,071
Loans charged off	(1,767)	(1,965)	(2,617)	(3,381)	(2,649)
Recoveries on loans	566	855	781	708	439
Reserve for losses at end of period	$ 5,625	$ 4,798	$ 4,079	$ 3,877	$ 4,133
Percent of loans to total loans at end of period	36.6%	37.8%	34.9%	32.2%	31.4%
Ratio of net loan losses to average loans	.16%	.17%	.34%	.52%	.40%
Real estate loans and reserve:					
Loans outstanding at end of period	$ 132,501	$137,838	$136,314	$167,673	$224,667

	1978	1977	1976	1975	1974
	(Dollars in Thousands)				
Average loans outstanding	$156,297	$137,371	$143,502	$202,388	$243,107
Reserve for losses at beginning of period	$ 1,866	$ 2,056	$ 4,574	$ 2,653	$ 1,166
Provision for loan losses	143	(259)	370	4,529	2,983
Loans charged off	(2)	(174)	(2,888)	(2,608)	(1,497)
Recoveries on loans	-	243	-	-	1
Reserve for losses at end of period	$ 2,007	$ 1,866	$ 2,056	$ 4,574	$ 2,653
Percent of loans to total loans at end of period	6.0%	7.3%	8.2%	10.6%	12.8%
Ratio of net loan losses to average loans	-	(.05%)	2.01%	1.29%	.62%
Money market loans and reserve:					
Loans outstanding at end of period	$ 46,509	$111,128	$153,599	$ 93,971	$ 575
Average loans outstanding	$ 61,481	$133,404	$106,369	$ 43,379	$ 27,462
Reserve for losses at beginning of period	$ -	$ -	$ -	$ -	$ -
Provision for loan losses	-	-	-	-	-
Loans charged off	-	-	-	-	-
Recoveries on loans	-	-	-	-	-
Reserve for losses at end of period	-	-	-	-	-
Percent of loans to total loans at end of period	2.1%	5.9%	9.2%	5.9%	.1%
Unallocated reserve:					
Reserve for losses at beginning of period	$ 9,927	$ 11,072	$ 11,066	$ 10,762	$ 12,771
Provision for loan losses	257	(1,145)	6	304	(2,009)
Loans charged off	-	-	-	-	-
Recoveries on loans	-	-	-	-	-
Reserve for losses at end of period	$ 10,184	$ 9,927	$ 11,072	$ 11,066	$ 10,762

RAINIER BANCORPORATION
(Disclosure "Risk Characteristics" of Portfolio in
lieu of "Allocated Reserve.")

Reserve for Possible Loan Losses

The consolidated reserve for loan losses consists of the reserve for loan losses maintained by the Bank, Rainier Mortgage and Rainier Credit, respectively. In order to maintain each such reserve at the level determined by Management to be sufficient to meet present and potential risk characteristics of the portfolios of the respective companies, additions thereto are made at such times and in such amounts as is determined by Management to be necessary on the basis of all factors from time to time relevant, including Management's continuing review of individual loans, the character and quality of the portfolio as a whole, existing and anticipated economic conditions, the loan loss experience of the respective companies, and comparable industry experience.

The consolidated reserve for loan losses at December 31, 1978 ($28,473,000) was 1.04% of outstanding loans, which was 6.9 times the average ratio of net losses to loans (0.15%) for the last five years.

The following table summarizes the consolidated loan loss experience of the Company for the five years ended December 31, 1978.

	Year Ended December 31				
	1974	1975	1976	1977	1978
	(In thousands of dollars)				
Balances:					
Average Loans for the Year (Net of Unearned Discount)	$1,363,547	$1,557,396	$1,654,285	$1,979,776	$2,502,139
Loans Outstanding at Year End (Net of Unearned Discount)	$1,476,183	$1,594,946	$1,774,470	$2,296,410	$2,743,373
Reserve for Possible Loan Losses, Beginning of Year	$ 12,424	$ 15,813	$ 18,930	$ 20,908	$ 24,188
Loan Losses for the Year:					
Domestic Offices:					
Agricultural	$ 42	$ 414	$ 257	$ 1,677	$ 281
Commercial	610	2,317	2,046	1,957	3,209
Installment and Consumer Finance	443	1,035	1,665	1,519	2,502
Real Estate	325	155	207	2	64
Credit Card	565	777	839	821	1,615
Foreign Offices	24	336	37	1	258
Total	$ 2,009	$ 5,034	$ 5,051	$ 5,977	$ 7,929
Recoveries for the Year:					
Domestic Offices:					
Agricultural			$ 155	$ 56	$ 274
Commercial			503	994	1,286
Installment	$ 1,358	$ 3,271	596	312	523
Real Estate			59	45	17
Credit Card			167	224	307
Total	$ 1,358	$ 3,271	$ 1,480	$ 1,631	$ 2,407
Foreign Offices	306	229	205	399	371
Total	$ 1,664	$ 3,500	$ 1,685	$ 2,030	$ 2,778
Net Loan Losses	$ 345	$ 1,534	$ 3,366	$ 3,947	$ 5,151
Provision Charged to Operating Expenses	3,734	4,651	5,344	7,227	9,436
Reserve for Possible Loan Losses, End of Year	$ 15,813	$ 18,930	$ 20,908	$ 24,188	$ 28,473
Ratios:					
Reserve to Loans Outstanding at Year End (Net of Unearned Discount)	1.07%	1.19%	1.18%	1.05%	1.04%
Net Loan Losses to Average Loans (Net of Unearned Discount)	0.03	0.10	0.20	0.20	0.21

The reserve for possible loan losses of Rainier Mortgage relates only to real estate loans, and the reserve of Rainier Credit relates primarily to installment loans. However, the reserve for possible loan losses of the Bank is a composite reserve. Based on its experience and history of charge-offs, the Bank believes that this method is more effective in developing a proper overall reserve than any method based on separate determinations with respect to individual loan categories. Any arbitrary allocation of the composite reserve to individual loan categories does not take into account the diversification of the Bank's portfolio and consequently the Bank is of the opinion that no such allocation can be made which would produce a meaningful result. In the Bank's experience, individual credit problems associated with particular borrowers are more indicative of credit risks than loan or industry classifications, and losses in any given year may occur on loans which the loan status at the end of the preceding year was not indicative of future losses. Also, in the Bank's experience, past due or renegotiated status of a loan normally is not a reliable indicator of future losses, and loans in any loan category may be significantly affected by unanticipated economic conditions.

The following table shows the amount of the individual loan loss reserve of the Bank, Rainier Mortgage and Rainier Credit at December 31, 1978, loans of each such company as of said date, the percentage of each company's loans to consolidated loans, and percentage of each company's reserve to the consolidated reserve.

	Reserve for Possible Loan Losses	Loans (Net of Unearned Discount)	Percentage of Loans	Percentage of Consolidated Reserve
	(In Thousands of Dollars)			
Bank	$25,541	$2,558,717	1.00%	89.7%
Rainier Mortgage	659	108,249	.61	2.3
Rainier Credit	2,273	76,407	2.97	8.0
Total	$28,473	$2,743,373	1.04	100.0%

The following tables set forth net loan losses to average loans in the various categories of the portfolio for the years 1976, 1977 and 1978:

Loan Category	Average Loans	Net Loan Losses	Percentage of Losses to Average Loans	Percentage of Losses to Total Losses
	(In Thousands of Dollars)			
1978				
Agricultural	$ 141,466	$ 7	- %	.14%
Commercial	879,129	1,923	.22	37.33
Installment	471,087	1,979	.42	38.42
Real Estate	533,003	47	.01	.91
Credit Card	151,139	1,308	.87	25.39
Foreign	326,315	(113)	(.03)	(2.19)
Total	$2,502,139	$5,151	.21	100.00%
1977				
Agricultural	$ 132,537	$1,621	1.22%	41.07%
Commercial	689,928	963	.14	24.39
Installment	332,369	1,207	.36	30.58
Real Estate	415,367	(43)	(.01)	(1.09)
Credit Card	88,867	597	.67	15.13
Foreign	320,708	(398)	(.12)	(10.08)
Total	$1,979,776	$3,947	.20	100.00%
1976				
Agricultural	$ 107,378	$ 102	.09%	3.03%
Commercial	541,186	1,543	.29	45.84
Installment	253,691	1,069	.42	31.76
Real Estate	372,193	148	.04	4.40
Credit Card	64,214	672	1.05	19.96
Foreign	315,623	(168)	(.05)	(4.99)
Total	$1,654,285	$3,366	.20	100.00%

This information is not available by categories for the years prior to 1976.

Reference is made to the preceding tabular presentations for an analysis of the Company's nonaccrual, renegotiated and past due loans ("non-performing loans") and loan charge-off experience. Management does not believe that historical experience affords a reliable index of future loan losses by category and is unable to project future net loan losses on that basis. However, the Company does not know of, and does not now anticipate, any circumstances which would result in any significant change in its level of net loan losses to average loans for 1979 compared with its experience during the preceding two years. Management's discussion of the risk characteristics of the loan categories listed in the foregoing tables follows:

Agricultural Loans

The State of Washington enjoys a diverse agricultural economy and the Bank's loan portfolio mirrors that diversification. Agricultural income is particularly susceptible to fluctuations in commodity price levels and weather conditions and Washington State agricultural income was adversely affected in 1977 by drought conditions in some areas, depressed commodity prices and continued increases in operating costs. The effect of those factors is reflected in the increase in total non-performing agricultural loans from $1.7 million at December 31, 1976, to $4.7 million at December 31, 1977. Non-performing agricultural loans decreased to approximately $2.2 million at December 31, 1978. Moisture is adequate for 1979 crops, farm prices have firmed and the remaining non-performing agricultural loans are being dealt with in an orderly fashion. The Bank believes that the collateral typically required for an agricultural loan will generally prevent significant losses and that its experience with agricultural credits and a careful monitoring of such loans significantly reduce the risks inherent in this segment of its portfolio.

Commercial Loans

The Bank's commercial loan portfolio is characterized by diversification, including food processing industries, particularly fish and seafood, logging, lumber, plywood, manufacturing, wholesale distribution, retailing, transportation and contracting. The Bank believes its total commercial loan portfolio avoids undue concentration in particular industries. Geographical diversification through the Bank's branch offices throughout the State and careful supervision of all individual credits are believed to be important factors in minimizing the normal risks inherent in commercial lending. The level of non-performing commercial loans decreased slightly to $5.6 million at December 31, 1977, from the year-earlier amount of $5.9 million and increased to $9.2 million at December 31, 1978, reflecting the increased size and activity in the Bank's commercial loan portfolio. The level of non-performing commercial loans has not been significantly affected by any single factor or been concentrated in any single industry.

Installment Loans

The installment loan portfolio of the Bank and Rainier Credit consists of consumer financing of all types throughout the Bank's statewide branch system and Rainier Credit's 32 offices in Washington, Oregon, Idaho and California. This geographical diversification is believed to limit the risks generally inherent in consumer financing throughout the Pacific Northwest and California. The level of nonperforming installment loans in 1976 and 1977 fluctuated moderately. The 60 day past due component increased in 1978 due to the Credit Company portfolio, while this component of the Bank's portfolio remained stable.

Real Estate Loans

The real estate loan portfolio of the Bank consists primarily (approximately 55%) of mortgage loans on single-family residences and the balance in small-to-medium sized commercial mortgage loans and interim financing of real estate projects. Both residential and commercial mortgage loans are affected by employment levels, fluctuations in interest rates, increased labor and building costs and the somewhat cyclical nature of single-family home construction. Rainier Mortgage is engaged primarily in originating, warehousing and marketing real estate mortgage loans to mortgage investors. It is the policy of Rainier Mortgage to originate mortgages against existing or concurrent commitments for sale to mortgage investors. Rainier Mortgage also makes interim construction and development loans. In certain cases, it is not feasible to require takeout arrangements with respect to such loans, and in such cases, some risk is incurred due to market fluctuations during the period of construction or development. Real estate non-performing loans increased from $314,000 at December 31, 1976, to approximately $2.8 million at December 31, 1977, as a result of a single construction loan in the amount of $2,600,000 held by Rainier Mortgage. During 1978, this loan was brought current and restored to full accrual. On December 31, 1978 real estate non-performing loans were $280,000.

Credit Card Loans

Due to the limitations imposed by the State of Washington restricting the annual interest rate to 12%, the Bank has established what it believes to be relatively stringent credit standards in the issuance of its credit cards. These standards in prior years have contributed to a loss experience believed to be below the national average and delinquencies in the low range of the credit card industry. In 1978 the Bank acquired approximately $16 million of loans from a major retailer, resulting in increased charge-offs and delinquencies in the latter part of 1978 as were anticipated.

International Loans

It has been the policy of the Bank to extend international loans on a carefully defined basis. Country-by-country guidelines have been established for this purpose with respect to the principal foreign countries in which loans are granted. To date the Bank's net loan losses in international lending have been negligible, and are believed to reflect an emphasis in foreign countries in which such traditional risks as expropriation and foreign currency devaluations have been limited. International non-performing loans increased from $325,000 at December 31, 1976 to approximately $2.6 million at December 31, 1977, and to approximately $4.5 million at December 31, 1978. The bulk of the 1977 increase represented a single non-accrual loan in the amount of $2.1 million which was paid off during 1978. The majority of the 1978 increase represented two loans, the first in the amount of $2.5 million, which was renegotiated as to terms, and the other in the amount of $1.9 million which was 60 days or more past due.

EXAMPLE Item 5--Deposits

PITTSBURGH NATIONAL CORPORATION

Deposits by Type of Depositor

	December 31					
	1978	1977	1976	1975	1974	1973
	(In thousands)					
Deposits in domestic offices						
Individuals, partnerships, and corporations	$2,776,753	$2,292,336	$2,169,047	$2,018,956	$1,885,333	$1,666,615
U.S. Government	6,709	20,970	7,232	7,546	6,566	31,208
States and political subdivisions	206,539	157,092	150,573	167,606	169,570	151,676
Commercial banks	130,029	86,885	89,246	84,726	76,144	84,141
Other	16,072	14,581	18,755	17,255	46,459	42,818
Total deposits in domestic offices	3,136,102	2,571,864	2,434,853	2,296,089	2,184,072	1,976,458
Deposits in foreign offices	181,820	57,618	32,663	40,030	29,518	98,407
Total deposits	$3,317,922	$2,629,482	$2,467,516	$2,336,119	$2,213,590	$2,074,865

Average Deposits By Major Classification

	1978	1977	1976	1975	1974	1973
	(In thousands)					
Deposits in domestic offices						
Demand	$ 984,688	$ 948,501	$ 900,913	$ 856,246	$ 793,047	$ 748,463
Savings	678,581	635,032	592,648	536,356	478,513	439,818
Other time	358,786	357,075	334,570	285,728	280,481	287,751
Time certificates of deposit of $100,000 or more in domestic offices	597,276	403,991	389,064	422,458	380,809	247,482
Deposits in foreign offices	80,872	40,032	34,673	37,658	79,200	58,602
Total deposits	$2,700,203	$2,384,631	$2,251,868	$2,138,446	$2,012,050	$1,782,116

Maturity of Domestic Time Certificates of Deposit of $100,000 or More

	December 31,	
	1978	1977
	(In thousands)	
Three months or less	$468,494	$213,355
Over three through six months	203,777	98,762
Over six through twelve months	110,839	37,877
Over twelve months	75,845	55,318
Total	$858,955	$405,312

EXAMPLE Item 6--Return on equity and assets

MANUFACTURERS HANOVER CORPORATION

Financial Ratios

	Year Ended December 31,				
	1978	1977	1976	1975	1974
Profitability Ratios:					
Rate of Return on (1):					
Average Total Assets	.52%	.51%	.50%	.53%	.55%
Average Earning Assets	.68	.66	.66	.69	.73
Shareholders' Equity	13.60	13.53	13.79	14.19	14.67
Profit Margin (2)	6.93	7.85	7.72	7.35	6.44
Liquidity and Capital Ratios:					
Average Shareholders' Equity to Average Earning Assets	4.98	4.87	4.76	4.89	4.98
Average Shareholders' Equity to Average Total Assets	3.83	3.76	3.61	3.71	3.78
Average Long-Term Debt to Total Average Capitalization (3)	33.20	32.43	32.31	29.75	23.97
Average Total Loans to Average Deposits and Borrowed Funds	65.78	65.01	63.32	66.61	67.41
Dividend Payout Ratio	38.14	38.74	38.02	36.31	39.40

Notes:

(1) Based on Income Before Securities Gains (Losses).

(2) Income Before Securities Gains (Losses) as a percentage of Total Operating Income.

(3) Total Average Capitalization is the sum of Average Long-Term Debt and Average Shareholders' Equity.

The Rate of Return on Average Total Assets declined slightly between 1974 and 1976 due to the higher levels of loan losses and nonperforming loans. In 1978 and 1977, this trend reversed itself primarily as a result of a lower level of loan losses.

The ratio of Average Shareholders' Equity to Average Total Assets had declined steadily between 1974 and 1976. Although the Corporation had consistently increased its Undivided Profits over this period, its expansion had been primarily funded with increased borrowings. In 1977, an equity offering bolstered Shareholders' Equity to reverse the trend.

The ratio of Average Long-Term Debt to Total Average Capitalization increased significantly between 1974 and 1976. The Corporation borrowed in the debt market to continue to fund the significant growth pattern in Manufacturers Hanover and the bank related affiliates, while in 1977 the Corporation entered both the debt and equity markets to finance expansion and maintain a strong capital base.

The Dividend Payout Ratio declined steadily in 1974 and 1975 as a result of the greater rate of increase in Net Income during that period as compared with a slower, but steady, rise in dividends declared. This trend reversed in 1976 due to higher dividends coupled with a moderate increase in Net Income.

EXAMPLES Item 7--Interest rates and interest differential

FIRST WISCONSIN CORPORATION
(Data for 1974, 1975 and 1976 was presented but is deleted from this example)

INTEREST AND RATE ANALYSIS

The following table presents for the last five years the Corporation's consolidated average balances and interest earned and paid and summarizes the average rates earned on interest earning assets and paid on interest bearing liabilities.

	1978			1977		
	Average Balance	Interest Earned/ Paid	Average Rate (1)	Average Balance	Interest Earned/ Paid	Average Rate (1)
	(Thousands of Dollars)					
Loans:						
Domestic Operations (2)	$1,738,836	$175,124	10.20%	$1,495,225	$135,053	9.16%
Foreign Operations	440,644	41,417	9.40	404,738	30,776	7.60
Investment Securities:						
Taxable	440,078	33,353	7.67	478,136	32,761	6.93
Non-Taxable	128,430	6,457	9.97	88,624	4,464	10.00
Trading Account Securities	21,982	1,455	8.53	16,944	1,008	7.50
Federal Funds Sold and Securities Purchased Under Resale Agreements	90,727	6,860	7.56	136,824	7,538	5.51
Interest Bearing Deposits:						
Domestic Operations	10,752	833	7.75	10,027	693	6.91
Foreign Operations	386,526	27,821	7.20	398,218	24,389	6.12
Total Interest Earning Assets	3,257,975	293,320	9.29	3,028,736	236,682	8.04
Personal Time Deposits	1,116,173	64,321	5.76	1,058,662	60,760	5.74
Business and Municipal Time Deposits	425,502	30,876	7.26	405,202	20,958	5.17
Foreign Office Time Deposits	456,088	35,065	7.69	461,507	26,761	5.80
Short-Term Borrowings	676,135	53,489	7.91	559,792	31,062	5.55
Debentures, Notes and Other Debt	82,032	6,552	7.99	78,851	6,351	8.05
Total Interest Bearing Liabilities	2,755,930	190,303	6.91	2,564,014	145,892	5.69
Net Interest Income:						
Domestic Operations		95,980			77,906	
Foreign Operations (3)		7,037			12,884	
Total		$103,017			$ 90,790	
Net Interest Yield on Earning Assets:						
Domestic Operations			4.33			3.81
Foreign Operations (3)			.85			1.61
Total			3.45			3.23

(1) Rate calculations include the effects of taxable equivalent adjustments, using a tax rate of 48% in adjusting interest on tax-exempt earning assets to a full federal taxable equivalent basis.

(2) The rate calculations include the effect of certain loans on which income is recognized only as cash payments are received, accruing at less than the originally contracted for rate, or in a non-accrual of earning status. Included in the calculations of changes in interest income are the net effects of adjustments to prior period interest accruals resulting in increased income of $219,000 in 1978, increased income of $510,000 in 1977, and decreased income of $143,000 and $1,435,000 in 1976 and 1975 respectively.

(3) Includes an allocation for net cost of funds used.

FIRST WISCONSIN CORPORATION

The following table shows an analysis of changes in interest income and interest expense.

	Changes in Interest Income and Interest Expense (1)					
	1978 compared to 1977			1977 compared to 1976		
	Total	Due to Balance	Due to Rate	Total	Due to Balance	Due to Rate
	(Thousands of Dollars)					
Loans:						
Domestic Operations (2)	$40,304	$22,318	$17,986	$14,747	$ 8,367	$ 6,380
Foreign Operations	10,641	2,730	7,911	1,153	2,640	-1,487
Investment Securities:						
Taxable	601	-2,638	3,239	823	936	-113
Non-Taxable	3,947	3,981	-34	-3,670	-4,276	606
Trading Account Securities	604	378	226	125	154	-29
Federal Funds Sold and Securities Purchased Under Resale Agreements	-677	-2,539	1,862	4,541	3,952	589
Interest Bearing Deposits:						
Domestic Operations	140	50	90	-623	-585	-38
Foreign Operations	3,432	-716	4,148	1,635	5,498	-3,863
Total Interest Earning Assets	$58,992	18,442	40,550	$18,731	19,865	-1,134
Personal Time Deposits	$ 3,560	3,300	260	$ 5,107	4,776	331
Business and Municipal Time Deposits	9,919	1,050	8,869	-794	1,078	-1,872
Foreign Office Time Deposits	8,304	-314	8,618	-312	3,507	-3,819
Short-Term Borrowings	22,427	6,456	15,971	8,536	5,832	2,704
Debentures, Notes and Other Debt	201	256	-55	-2,298	-2,555	257
Total Interest Bearing Liabilities	$44,411	10,920	33,491	$10,239	13,867	-3,628

(1) Calculations include the effects of taxable equivalent adjustments, using a tax rate of 48% in adjusting interest on tax-exempt earning assets to a full federal taxable equivalent basis. The change in interest due to both rate and balance has been allocated to the change due to rate.

(2) The calculations include the effect of certain loans on which income is recognized only as cash payments are received, accruing at less than the originally contracted for rate, or in a non-accrual of earning status. Included in the calculations of changes in interest income are the net effects of adjustments to prior period interest accruals resulting in increased income of $219,000 in 1978, increased income of $510,000 in 1977 and decreased income of $143,000 in 1976.

NET INTEREST REVENUE Taxable Equivalent Basis
(Data for 1974, 1975 and 1976 was presented but is deleted from this example)

	Year 1978			Year 1977		
	Average Volume (In Millions)	Interest	Average Rate (%)	Average Volume	Interest	Average Rate (%)
Interest Revenue						
Interest-Bearing Deposits (Principally in overseas offices)	$12,924	$ 940.0	7.27	$10,634	$ 640.5	6.02
Loans (Net of Unearned Discount)						
Commercial Loans						
In Domestic Offices						
Commercial and Industrial	$ 7,593	$ 787.8	10.38	$ 7,663	$ 627.4	8.19
Mortgage and Real Estate	1,154	104.7	9.07	1,056	62.6	5.93
Loans to Financial Institutions	1,445	89.4	6.19	1,460	81.8	5.60
Loans for Purchasing or Carrying Securities	563	48.6	8.63	815	49.6	6.09
Other Loans	1,097	91.9	8.38	870	72.6	8.34
In Overseas Offices	27,885	3,048.0	10.93	23,951	2,343.9	9.79
Total Commercial Loans	$39,737	$4,170.4	10.50	$35,815	$3,237.9	9.04
Consumer Loans						
In Domestic Offices	$ 4,838	$ 569.1	11.76	$ 2,950	$ 323.3	10.96
In Overseas Offices	3,049	505.8	16.59	2,380	402.7	16.92
Total Consumer Loans	$ 7,887	$1,074.9	13.63	$ 5,330	$ 726.0	13.62
Total Loans**	$47,624	$5,245.3	11.01	$41,145	$3,963.9	9.63
Funds Sold	1,348	107.3	7.96	831	49.5	5.96
Total	$48,972	$5,352.6	10.93	$41,976	$4,013.4	9.56
Investment Securities						
In Domestic Offices						
U.S. Treasury and Federal Agencies	$ 1,068	$ 77.3	7.24	$ 1,130	73.2	6.48
State and Municipal	877	102.7	11.71	1,410	159.9	11.34
Other	168	11.8	7.02	153	10.2	6.67
In Overseas Offices (Principally local government issues)	1,738	191.0	10.99	1,395	152.2	10.91
Total**	$ 3,851	$ 382.8	9.94	$ 4,088	$ 395.5	9.67
Trading Account Securities						
U.S. Treasury and Federal Agencies, Net	$ 178	$ 14.6	8.20	$ (42)*	$ (1.0)	-
State and Municipal	98	10.8	11.02	53	6.8	12.83
Other (Principally in overseas offices)	378	30.6	8.10	282	19.7	6.99
Total**	$ 654	$ 56.0	8.56	$ 293	$ 25.5	-
Direct Lease Financing**	$ 1,289	$ 179.9	13.96	$ 1,149	$ 153.2	13.33
Total Interest Revenue	$67,690	$6,911.3	10.21	$58,140	$5,228.1	8.99
Interest Expense						
Deposits						
In Domestic Offices						
Savings Deposits	$ 1,815	$ 87.2	4.80	$ 1,788	$ 82.2	4.60
Negotiable Certificates of Deposit	4,843	374.2	7.73	3,963	224.6	5.67
Other Time Deposits	2,801	190.6	6.80	2,812	145.6	5.18
Total Domestic Interest-Bearing Deposits	$ 9,459	$ 652.0	6.89	$ 8,563	$ 452.4	5.28
In Overseas Offices	40,376	2,861.1	7.09	35,385	2,078.1	5.87
Total	$49,835	$3,513.1	7.05	$43,948	$2,530.5	5.76

	Year 1978			Year 1977		
	Average Volume (In Millions)	Interest	Average Rate (%)	Average Volume	Interest	Average Rate (%)
Funds Borrowed						
In Domestic Offices						
Purchased Funds and Other Borrowings						
Federal Funds Purchased and Securities Sold Under Agreements to Repurchase	$ 4,246	$ 338.1	7.96	$ 4,046	$ 229.7	5.68
Commercial Paper	1,988	160.7	8.08	1,140	65.2	5.72
Other Purchased Funds	422	37.6	8.91	154	10.4	6.75
Intermediate-Term Debt	666	50.8	7.63	581	36.8	6.33
Long-Term Debt and Convertible Notes	1,292	100.7	7.79	987	73.6	7.46
Total in Domestic Offices	$ 8,614	$ 687.9	7.99	$ 6,908	$ 415.7	6.02
In Overseas Offices	3,776	360.3	9.54	2,328	248.6	10.68
Total	$12,390	$1,048.2	8.46	$ 9,236	$ 664.3	7.19
Other, Non-Interest Bearing	$ 5,465			$ 4,956		
Total Interest Expense	$67,690	$4,561.3	6.74	$58,140	$3,194.8	5.50
Net Interest Revenue		$2,350.0	3.47		$2,033.3	3.49

*U.S. Treasury and Federal Agencies Trading Account securities sold but not yet purchased during the year 1977 exceeded securities owned, on average.

**The taxable equivalent adjustment is explained in the table "Taxable Equivalent Adjustment" on page 29.

CITICORP
(Excerpts from Management's Discussion and Analysis
of the Consolidated Statement of Income)

Taxable Equivalent Adjustment

In the Net Interest Revenue table, earnings on certain asset categories have been stated on a taxable equivalent basis. The amounts applied to bring the interest to a taxable equivalent basis were as follows:

	1978 (In Millions)	1977	1976	1975	1974
Loans	$18.4	$ 28.3	$ 27.6	$25.6	$18.9
Investment Securities	60.3	94.2	73.3	58.5	45.9
Trading Account Securities	5.3	3.9	6.5	10.7	17.9
Direct Lease Financing	10.0	6.0	4.5	4.2	3.1
	$94.0	$132.4	$111.9	$99.0	$85.8
Marginal Tax Rate Used	48%	62%	61%	55%	55%

Analysis of Changes in Net Interest Revenue
Taxable Equivalent Basis

	1978/1977			1977/1976		
	Increase (decrease) due to change in:			Increase (decrease) due to change in:		
	Average Volume	Average Rate	Net Change	Average Volume	Average Rate	Net Change
	(In Millions)					
Interest Revenue						
Interest-Bearing Deposits	$152.5	$147.0	$ 299.5	$230.5	$(51.8)	$178.7
Loans (Net of Unearned Discount)						
In Domestic Offices	$166.8	$307.4	$ 474.2	$(23.0)	$ 26.9	$ 3.9
In Overseas Offices	510.8	296.4	807.2	453.5	65.3	518.8
Total Loans	$677.6	$603.8	$1,281.4	$430.5	$ 92.2	$522.7
Funds Sold	37.5	20.3	57.8	27.3	(.6)	26.7
Total	$715.1	$624.1	$1,339.2	$457.8	$ 91.6	$549.4
Investment Securities						
In Domestic Offices						
U.S. Treasury and Federal Agencies	$ (4.2)	$ 8.3	$ 4.1	$ .1	$ (6.6)	$ (6.5)
State and Municipal	(62.3)	5.1	(57.2)	36.1	(7.0)	29.1
Other	1.0	.6	1.6	-	.1	.1
In Overseas Offices	37.7	1.1	38.8	21.6	(16.0)	5.6
Total	$(27.8)	$ 15.1	$ (12.7)	$ 57.8	$(29.5)	$ 28.3
Trading Account Securities						
U.S. Treasury and Federal Agencies, Net	$ 12.9	$ 2.7	$ 15.6	$(15.4)	$ (8.5)	$(23.9)
State and Municipal	5.1	(1.1)	4.0	(3.3)	(1.5)	(4.8)
Other	7.4	3.5	10.9	(.5)	(3.6)	(4.1)
Total	$ 25.4	$ 5.1	$ 30.5	$(19.2)	$(13.6)	$(32.8)
Direct Lease Financing	$ 19.3	$ 7.4	$ 26.7	$ 7.1	$ (1.5)	$ 5.6
Total Interest Revenue	$884.5	$798.7	$1,683.2	$734.0	$ (4.8)	$729.2
Interest Expense						
Deposits						
In Domestic Offices						
Savings Deposits	$ 1.3	$ 3.7	$ 5.0	$ 6.2	$ 1.7	$ 7.9
Negotiable Certificates of Deposit	56.8	92.8	149.6	(56.4)	(12.1)	(68.5)
Other Time Deposits	(.6)	45.6	45.0	10.6	4.3	14.9
Total Domestic Interest-Bearing Deposits	$ 57.5	$142.1	199.6	$(39.6)	$ (6.1)	$(45.7)
In Overseas Offices	317.3	465.7	783.0	464.5	8.4	472.9
Total	$374.8	$607.8	$ 982.6	$424.9	$ 2.3	$427.2
Funds Borrowed						
In Domestic Offices						
Purchased Funds and Other Borrowings						
Federal Funds Purchased and Securities Sold Under Agreements to Repurchase	$ 11.9	$ 96.5	$ 108.4	$ 84.4	$ 15.5	$ 99.9
Commercial Paper	61.3	34.2	95.5	(4.1)	2.9	(1.2)
Other Purchased Funds	22.5	4.7	27.2	(2.3)	1.4	(.9)
Intermediate-Term Debt	5.9	8.1	14.0	(8.5)	(.6)	(9.1)
Long-Term Debt and Convertible Notes	24.5	2.6	27.1	44.3	8.6	52.9
Total in Domestic Offices	$126.1	$146.1	$ 272.2	$113.8	$ 27.8	$141.6
In Overseas Offices	140.6	(28.9)	111.7	17.9	1.0	18.9
Total	$266.7	$117.2	$ 383.9	$131.7	$ 28.8	$160.5
Total Interest Expense	$641.5	$725.0	$1,366.5	$556.6	$ 31.1	$587.7
Net Interest Revenue	$243.0	$ 73.7	$ 316.7	$177.4	$(35.9)	$141.5

EXAMPLES Item 8--Foreign operations

SEAFIRST CORPORATION

INTERNATIONAL OPERATIONS

GENERAL

Seafirst's international operations are primarily conducted through the International Department which includes the domestic international operations located in Seattle, its three foreign branches, two representative offices and two international subsidiaries. Using the International Department totals, credit transactions are classified as international in nature based primarily on the location of the borrower or guarantor. In determining international assets, liabilities, revenue and expenses, subjective internal allocations were made of common items including shareholders' equity, corporate overhead and funds utilized. It is management's opinion that the data presented is representative of Seafirst's international activities.

While financial activities related to foreign operations may involve risks not present in domestic transactions, Seafirst believes that such risks are lessened by the wide geographic distribution of its activities and governmental or bank guarantees of a large portion of its assets. At December 31, 1978 approximately 69% of foreign loans were made to or guaranteed by governments, government agencies or banks.

The Bank engages in foreign exchange activities on behalf of its customers and correspondents and for its own account in both the spot and forward markets. This activity is conducted in London, Tokyo, Zurich and Seattle and monitored on a regular basis by management in Seattle. The underlying risks in foreign exchange activities involve: 1) the size of net currency positions; 2) the size of unmatched forward positions; 3) the credit worthiness of trading partners; and 4) the ability of each trading unit to handle a given volume of activity. Foreign exchange limits for the Zurich subsidiary are established by its Board of Directors and monitored by Bank management. Of the various limits which are monitored, one of the most important is the aggregate open position. This is the total of all the net long or short positions for each currency at the end of each business day. The total aggregate open position limit for the international operations of the Bank was $11 million at December 31, 1978.

AVERAGE INTERNATIONAL ASSETS AND LIABILITIES
(In Millions)

	Year Ended December 31, 1978
Assets:	
Deposits Placed and Trading Assets	$123.2
Loans to:	
Commercial Banks and Other Financial Institutions	61.9
Foreign Governments, Government Banks and Agencies	165.1
Business Guaranteed by Government Banks, Agencies or Corporations or Commercial Banks	77.6
Other Businesses	100.3
Other	20.4
Total Loans	425.3
Due from Customers on Acceptances	77.1
Other Assets	36.6
Total International Assets	$662.2
Liabilities:	
Deposits of:	
Banks Located in Foreign Countries	$363.7
Foreign Governments, Official Institutions, Central Banks or International Institutions	21.8
Other	21.0
Total Deposits	406.5
Other Borrowings from Foreign Sources	11.8
Total International Deposits and Other Borrowings	418.3
Acceptances Outstanding	77.1
Total	$495.4

The following table shows the geographic distribution of total average international assets for 1978. Average assets include the balances in foreign banks and loans shown in the preceding table, certain domestic assets allocated to international operations including non-earning assets such as fixed assets and cash, banker's acceptances and miscellaneous assets held by foreign subsidiaries. No one country accounted for 5% or more of Seafirst's consolidated total assets.

Geographic Distribution Of Total Average International Assets

	Year Ended December 31, 1978 (Dollars in Millions)	
	Amount	Percent of Total International Assets
North and South America	$324.5	49%
Asia/Oceania	185.4	28
Europe and Middle East	139.1	21
Africa	13.2	2
	$662.2	100%

Geographic Distribution Of The Principal Categories Of Foreign Assets
(In Millions)

	December 31, 1978			
	Deposits Placed and Trading Assets	Loans*	Acceptances and Other Assets	Total
North and South America	$ 24.2	$262.3	$ 81.4	$367.9
Asia/Oceania	24.5	145.7	39.1	209.3
Europe and Middle East	72.1	73.6	12.6	158.3
Africa	—	18.5	1.4	19.9
	$120.8	$500.1	$134.5	$755.4

*Includes bankers acceptances purchased and foreign bills.

Due to the integrated nature of Seafirst's foreign and domestic operations, it is not possible to segregate with precision the respective contributions to income from foreign and domestic operations. Accordingly, certain estimates and assumptions have been used in the compilation of data presented. These estimates and assumptions include an allocation of charges for funds, capital, the provision for possible loan losses, expenses incurred in domestic operations on behalf of international operations, overhead and certain domestic assets allocated to international operations.

Subject to the above limitations the following table presents the contribution made by international operations to revenue and income before income taxes, securities transactions and extraordinary item for the five years ended December 31, 1978.

	Year Ended December 31, (In Thousands)				
	1974	1975	1976	1977	1978
International Revenue	$59,280	$47,169	$38,455	$46,666	$59,177
Percent of Total Consolidated Revenue	16%	13%	11%	11%	10%
International Income Before Income Taxes, Securities Transactions and Extraordinary Item	$ 7,500	$ 1,837	$ 4,052	$ 4,676	$10,871
Percent of Total Consolidated Income Before Income Taxes, Securities Transactions and Extraordinary Item	20%	4%	8%	8%	13%

Revenue And Income Before Tax Attributable To International Operations
(In Thousands)

Income earned on assets, charges for funds supporting such assets, capital, the provision for possible loan losses and operating expenses and overhead have been allocated to the geographic locations presented below on the basis of administrative responsibility regardless of the domicile of the borrower or guarantor. As a result, the following table does not reflect revenue and income before income taxes and securities transactions based upon the domicile of the borrower or guarantor.

	Year Ended December 31,	
	1977	1978
Revenue:		
North and South America	$ 8,872	$22,948
Asia	7,288	13,767
Europe	30,506	22,462
	$46,666	$59,177
Income Before Income Taxes and Securities Transactions:		
North and South America	$ 2,245	$ 5,893
Asia	949	1,321
Europe	1,482	3,657
	$ 4,676	$10,871

GIRARD COMPANY

Foreign Operations

Average daily foreign assets and liabilities for the years ended December 31, 1978 and 1977 were as follows:

	1978	1977
	(in thousands)	
Foreign Assets		
Deposits in banks:		
Interest bearing deposits:		
Foreign branches of U.S. banks	$ 38,548	$ 41,740
of U.S. banks	$ 38,548	$ 41,740
Foreign banks	237,973	184,708
Noninterest bearing deposits in foreign banks	1,654	1,952
Total deposits in banks	278,175	228,400
Investment securities:		
Public sector	57,325	34,303
Private sector	14,401	22,408
Total investment securities	71,726	56,711
Loans:		
Public sector:		
Governments and agencies	261,153	250,843
Banks	119,035	101,457
Commercial and industrial	25,304	29,761
	405,492	382,061
Private sector:		
Banks	107,293	99,944
Other financial institutions	4,481	5,347
Commercial and industrial	87,396	67,459
Other	1,266	6,176
	200,436	178,926
	605,928	560,987
Less: Unearned income	(1,002)	-
Reserve for loan losses	(3,792)	(2,700)
Total Loans	601,134	558,287
Other assets	34,564	16,169
Total Foreign Assets	$985,599	$859,567

	1978	1977
	(in thousands)	
Foreign Liabilities		
Demand deposits:		
Deposits of banks, including funds clearing balances	$ 32,043	$103,118
Other deposits:		
Deposits of banks	478,950	441,225
Deposits of governments and agencies	93,239	43,406
Other deposits	47,644	99,928
Total deposits	619,833	584,559
Other Liabilities	30,401	17,007
Total Foreign Liabilities	$682,277	$704,684

Included in foreign assets are all loans and other revenue-producing assets for which the debtor is domiciled outside the United States and other assets owned outside the United States. Included in foreign liabilities are all obligations to creditors located outside the United States. Public sector borrowers include all municipal, provincial and central governments and their departments and agencies, as well as banks and commercial enterprises which are majority owned by governments. Private sector borrowers are principally commercial enterprises which are not majority owned or controlled by governmental entities.

Average foreign assets categorized by geographic distribution for the year ended December 31, 1978 and the comparative distribution of average total foreign assets for the year ended December 31, 1977 are as follows:

	Loans	Deposits	Securities	Other	Total 1978	Total 1977
Europe:						
United Kingdom	$ 45,483	$134,868	-	$10,363	$190,714	$ 91,568
Spain	32,332	6,122	-	-	38,454	46,973
Italy	29,778	15,848	$ 42	20	45,688	40,979
Other	170,477	57,371	21,007	643	249,498	245,282
	278,070	214,209	21,049	11,026	524,354	424,802
Latin America:						
Mexico	112,171	3	294	1,452	113,920	116,992
Brazil	75,033	-	537	1,953	77,523	65,121
Other	65,006	3,960	7,528	1,261	77,755	31,197
	252,210	3,963	8,359	4,666	269,198	213,310
Asia-Pacific:						
Japan	2,828	35,929	35,001	6,008	79,766	97,123
Korea	20,212	-	-	4,363	24,575	29,829
Other	35,943	10,135	837	3,513	50,428	50,525
	58,983	46,064	35,838	13,884	154,769	177,477
Multinational and other areas	16,665	13,939	6,480	194	37,278	43,978
Totals	$605,928	$278,175	$71,726	$29,770	$985,599	$859,567

At December 31, 1978, loans extended to foreign governments, banks and commercial enterprises domiciled within countries categorized by per capita levels of gross national income were as follows:

Industrialized countries with per capita income of $2,000 or more	$261,910,000
Countries with per capita income of from $500 to $1,999:	
Brazil	88,602,000
Korea	18,096,000
Mexico	106,218,000
Taiwan	12,638,000
Yugoslavia	42,691,000
Other	88,261,000
	356,506,000
Countries with per capita income of from $200 to $499	24,169,000
Countries with per capita income of less than $200	5,559,000
Total	$648,144,000

Subcategorizations of such loans at December 31, 1978 were as follows:

	Countries with Per Capita Income Levels of			
	$2,000 or more (in thousands)	$500 to $1,999	$200 to $499	Under $200
Public Sector:				
Governments and agencies	$111,570	$149,325	$ 2,293	$4,059
Banks	39,913	90,348	6,156	-
Commercial and industrial	7,787	23,912	2,000	-
	159,270	263,585	10,449	4,059
Private Sector:				
Banks	77,231	28,579	500	-
Other financial institutions	2,758	510	-	-
Commercial and industrial	22,235	62,984	13,220	1,500
Other	416	848	-	-
	102,640	92,921	13,720	1,500
Total	$261,910	$356,506	$24,169	$5,559

The total revenue from foreign activities for each of the past five years, representing income from loans and other revenue-producing assets and other transactions in which the debtor or customer is domiciled outside the United States, categorized by geographic domiciles of the debtors and customers, was as follows:

	1978 (in thousands)	1977	1976	1975	1974
Europe:					
United Kingdom	$14,038	$ 5,350	$ 8,214	$12,483	$14,229
Spain	3,699	3,034	2,554	2,668	2,111
Italy	3,422	1,871	2,825	4,870	8,117
Other	21,338	17,983	19,006	23,358	22,992
	42,497	28,238	32,599	43,379	47,449
Latin America:					
Mexico	13,612	10,231	9,508	8,203	8,567
Brazil	8,894	5,248	4,356	1,847	1,432
Other	7,614	2,587	1,371	1,808	2,939
	30,120	18,066	15,235	11,858	12,938
Asia-Pacific:					
Japan	5,999	6,955	5,462	4,620	10,541
Korea	2,074	1,910	1,673	2,206	2,377
Other	4,621	3,906	3,047	2,442	2,847
	12,694	12,771	10,182	9,268	15,765
Multinational and other areas	2,666	3,032	1,966	459	616
Total	$87,977	$62,107	$59,982	$64,964	$76,768
Percentage of foreign to total operating income	28.8%	24.6%	24.5%	25.8%	25.9%

After deducting all attributable interest and operating expenses from the above total revenues, pre-tax income from foreign activities for each of the past five years, categorized by the geographic domiciles of the debtors and customers from whom the revenues were derived, was as follows:

	1978 (in thousands)	1977	1976	1975	1974
Europe:					
United Kingdom	$ 490	$ 471	$ 573	$ 350	$ 44
Spain	249	256	162	130	2
Italy	295	158	183	265	9
Other	1,662	1,991	1,901	2,280	322
	2,696	2,876	2,819	3,025	377
Latin America:					
Mexico	2,408	2,526	1,874	913	646
Brazil	2,121	1,034	949	214	149
Other	45	436	364	203	208
	4,574	3,996	3,187	1,330	1,003
Asia-Pacific:					
Japan	196	882	534	416	288
Korea	246	199	193	320	334
Other	757	666	564	305	251
	1,199	1,747	1,291	1,041	873
Multinational and other areas	277	514	243	46	42
Total Foreign Income Before Taxes	$8,746	$9,133	$7,540	$5,442	$2,295
Percentage of foreign to total income before taxes	28.4%	41.8%	68.9%	29.3%	18.4%
Total Foreign Net Income	$4,753	$4,930	$3,194	$2,789	$1,158
Percentage of foreign to total net income	20.6%	26.8%	35.9%	17.0%	8.2%

The sizable increase in the percentage of foreign to total consolidated income before taxes for the year 1976 related principally to a decrease in domestic earnings which resulted primarily from the increase in the provision for loan losses charged to operations in that year. The percentages of foreign to total income are greater on a pre-tax basis than the net income percentages primarily because a sizable portion of domestic interest revenue relates to obligations of state and political subdivisions which are exempt from federal income taxation and, accordingly, is earned and recorded at substantially lower pre-tax amounts.

Included in the above revenue and pre-tax data are revenues earned on foreign exchange activities conducted to accommodate customer needs arising from doing business in an international marketplace. Such customer requirements include the need to hedge investments made and obligations incurred in foreign currencies and the necessity to convert from one currency to another in international funds transfers, export/import transactions and borrowings/repayment transactions. It is the Company's policy to substantially match obligations to provide a foreign currency against commitments to obtain that currency, thereby limiting the risk of gain or loss on exchange rate volatility.

EXAMPLE Item 9—Commitments and lines of credit

WESTERN BANCORPORATION

Commitments and Lines of Credit

The various Affiliated Banks, as a normal banking practice, making available line of credit arrangements to support customers' on-going credit needs. These lines are usually written for a specific amount and may or may not be multi-purpose arrangements incorporating facilities for short term, either secured or unsecured, letters of credit and acceptances. Lines are usually written with an expiry of one year and may or may not be advised to the customer. They are cancelable at any time in the event the customer fails to maintain a risk standard satisfactory to the bank. In those cases where the customer is advised of the line arrangement, the bank is usually compensated by a balance maintenance requirement.

In addition to line facilities, the Affiliated Banks also establish more formal contractual credit arrangements calling for specific amounts, with specific requirements and maturities. These contractual commitments are usually supported by a written agreement executed by both the customer and the bank. They may be secured or unsecured and of a short or long term duration. Normally a fee is assessed by the bank (usually a percentage of the commitment) as compensation to the bank for reserving the credit availability to the customer. In all cases the written agreement covering the commitment specifies that the accommodation may be terminated if the conditions outlined in the written understanding are not adhered to.

Prior to the establishing of either a line or a formal contractual credit arrangement, careful analytical and investigative procedures are undertaken to determine the credit worthiness of the prospective borrower.

In the opinion of Western Bancorporation management, none of its Affiliated Banks has any material commitments to extend credit which represent unusual risks.

Item 2. Summary of operations

Summary of operations content Table 78 indicates that a majority of the reports surveyed included only consolidated information in the summary of operations in 1978 and 1977.

Table 78. Item 2. Summary of Operations Content

	Multi-bank Holding Companies		One-bank Holding Companies		Total Companies	
	78	77	78	77	78	77
Number of reports in which Item 2 included:						
Summary of operations:						
Consolidated	23	22	21	18	44	40
Consolidated and parent only	2	3	4	7	6	10
	25	25	25	25	50	50

Form of summary of operations In 1978, a majority (36) of the survey reports contained a summary of operations rather than a complete statement of income.

Table 79. Item 2. Form of Summary of Operations

	Multi-bank Holding Companies		One-bank Holding Companies		Total Companies	
	78	77	78	77	78	77
Number of reports in which Item 2 included:						
Summary of operations only	18	16	18	15	36	31
Complete statements of income	6	8	7	10	13	18
Complete consolidated statements of income; summary of operations for parent	1	1			1	1
	25	25	25	25	50	50

Incorporation of summary of operations information by reference. Table 80 shows that 25 and 31 of the reports surveyed in 1978 and 1977, respectively, incorporated the summary of operations and/or management's discussion from the annual report to shareholders. Of those reports which incorporated the summary of operations information, the majority incorporated both the summary of operations and management's discussion.

Table 80. Incorporation of Summary of Operations Information by Reference*

	Multi-bank Holding Companies		One-bank Holding Companies		Total Companies	
	78	77	78	77	78	77
Reports which included summary of operations information incorporated by reference:						
Summary of operations and management's discussion	9	12	11	14	20	26
Management's discussion only	3	2	2	3	5	5
	12	14	13	17	25	31
Reports containing summary of operations information without incorporation by reference	13	11	12	8	25	19
	25	25	25	25	50	50

*Four of the survey companies issued a "combined" 10-K and annual report to shareholders. These are included in the "without incorporation" statistics for 1978.

Reference to independent audit. There is no requirement that the information presented in the summary of operations be covered by the independent auditors' report. Table 81 shows that 8 of the 50 reports surveyed in 1978 and 6 in 1977 indicated whether statements of income included in the summary of operations were audited.

Table 81. Item 2. Reference to Independent Audit

	Multi-bank Holding Companies		One-bank Holding Companies		Total Companies	
	78	77	78	77	78	77
Number of reports making reference to audit in Item 2	5	2	3	4	8	6
Number of reports making no reference to audit in Item 2	20	23	22	21	42	44
	25	25	25	25	50	50

Computation of earnings per share. Instructions to *Item 2. Summary of Operations* prescribe that the registrant shall file an exhibit "... setting forth in reasonable detail the computation of per share earnings, unless the computation can be clearly determined from the answer to this item."

An exhibit detailing the computation of earnings per share was filed as part of 20 of the 50 reports surveyed (22 in 1977).

EXAMPLE Item 2. Summary of operations and management's discussion incorporated by reference

CONTINENTAL ILLINOIS CORPORATION

Item 2. Summary of Operations

The "Consolidated Statement of Income" for the five years ended December 31, 1978 and "Common Share Statistics" of the Company and its subsidiaries, included in the 1978 Annual Report of the Company to its Stockholders (Pages 52 & 53) are incorporated herein by reference in response to this item. The statement should be read in conjunction with the notes below and the related consolidated financial statements and notes thereto incorporated by reference under Item 12(a)1 of this Report.

(1) Foreign exchange results, including gains or losses on hedge contracts, are included in All Other Income and amounted to net gains of $15,267,000 in 1978; $15,005,000 in 1977; $7,152,000 in 1976; $6,522,000 in 1975; and $16,610,000 in 1974. Net gains or losses on hedge contracts arising in connection with the funding of loans and investments are included in Interest Expense on Deposits and amounted to net gains of $5,718,000 in 1978; and net losses of $2,200,000 in 1977; $3,472,000 in 1976; $3,040,000 in 1975; and $3,781,000 in 1974.

(2) The related income tax effect resulting from losses on the sale of Investment Securities was $899,000 in 1978; $1,634,000 in 1977; $2,906,000 in 1976; $5,989,000 in 1975; and $221,000 in 1974.

(3) Income per share of Common Stock has been computed using the weighted average number of shares of the Company's Common Stock outstanding during each of the years. The dilution which would result from the exercise of the outstanding stock options (a maximum during the period of 768,295 shares), and the conversion of the convertible preferred shares outstanding through June 30, 1976 would not be material. Dividends declared per share of Common Stock is based upon the number of shares of Common Stock outstanding at the time of the dividend. See Note 10 of Notes to Financial Statements.

Management's Discussion And Analysis Of The Consolidated Summary Of Operations

Reference is made to the 1978 Annual Report of the Company to its Stockholders (Pages 16 to 27) for incorporation of Management's Discussion and Analysis of the Consolidated Summary of Operations.

EXAMPLES Item 2. Summary of operations (management's discussion and analysis of operations not shown for these examples)

REPUBLIC OF TEXAS CORPORATION

Item 2. Summary of Operations.

($ in millions, except per share amounts)

The following consolidated summary of operations of Republic of Texas Corporation and subsidiaries for the five years ended December 31, 1978, is not reported on herein by certified public accountants. The summary should be read in conjunction with the consolidated financial statements and note thereto, included elsewhere herein.

	Years Ended December 31,				
	1974	1975	1976	1977	1978
Interest income	$422.1	$336.7	$337.4	$400.3	$581.0
Interest expense	317.5	220.4	212.0	255.2	398.9
Net interest income	104.6	116.3	125.4	145.1	182.1
Provision for loan losses	14.6	13.6	14.5	12.3	14.6
Net interest income after provision for loan losses	90.0	102.7	110.9	132.8	167.5
Non-interest income	31.3	33.8	35.8	41.8	46.7
Non-interest expense	77.9	88.0	96.4	109.4	137.1
Income from continuing operations before taxes, securities transactions and extraordinary item	43.4	48.5	50.3	65.2	77.1
Provision for income taxes--Note 12	8.5	8.9	10.3	19.6	17.1
Income from continuing operations before securities transactions and extraordinary item	34.9	39.6	40.0	45.6	60.0
Securities transactions--Note b	-	-	1.0	-	(1.6)
Income from continuing operations before extraordinary item	34.9	39.6	41.0	45.6	58.4
Extraordinary item--Notes 12 and 17	-	-	-	-	2.3
Income from continuing operations	34.9	39.6	41.0	45.6	60.7
Discontinued operations--Note 6 and c	5.0	6.4	6.1	27.3	(.8)
Net income	$ 39.9	$ 46.0	$ 47.1	$ 72.9	$ 59.9
Per share--Note d:					
Income from continuing operations before securities transactions and extraordinary item	$2.01	$2.28	$2.30	$2.59	$3.41
Income from continuing operations before extraordinary item	2.01	2.28	2.35	2.60	3.32
Income from continuing operations	2.01	2.28	2.35	2.60	3.46
Net income	2.29	2.64	2.70	4.15	3.41
Cash dividends paid--Note e	.72	.72	.72	.80	.86

Alphabetical references are to Notes to Consolidated Summary of Operations.
Numerical references are to Notes to Financial Statements.

REPUBLIC OF TEXAS CORPORATION

NOTES TO CONSOLIDATED SUMMARY OF OPERATIONS

(a) See Note 1 of Notes to Financial Statements included elsewhere herein, for a summary of significant accounting policies.

(b) Securities gains (losses) are net of related income tax charges (credits) or $5,000 for 1974; $13,000 for 1975; $(701,000) for 1976; $8,000 for 1977; and $(1,488,000) for 1978.

(c) Income taxes (benefit) related to income (loss) from discontinued operations were $2,188,000 in 1974; $3,419,000 in 1975; $3,684,000 in 1976: $897,000 in 1977; and $(244,000) in 1978. Income taxes (benefit) related to gains (losses) on sale of assets related to discontinued operations were $150,000 in 1974; $1,027,000 in 1975; $792,000 in 1976; $11,031,000 in 1977; and $(240,000) in 1978. See "Management's Discussion and Analysis of the Consolidated Summary of Operations--Discontinued Operations and Bank Stocks."

(d) Income per share is computed based on weighted average shares outstanding as adjusted retroactively to reflect the shares issued in connection with poolings of interest and a three-for-two stock split effective September 12, 1978. Average shares outstanding were as follows: 1974--17,415,944; 1975--17,410,308; 1976--17,421,270; 1977--17,583,882; and 1978--17,583,410.

(e) Cash dividends paid represent cash dividends paid by Republic National Bank for the first half of 1974 and thereafter by the Registrant.

MELLON NATIONAL CORPORATION

Consolidated Summary of Operations for Five Years Ended December 31, 1978

(Not Covered by Accountant's Report)

	1978	1977	1976	1975	1974
	(in thousands except per share data)				
INTEREST INCOME FROM:					
Loans	$520,027	$406,820	$368,463	$407,529	$446,364
Money Market Investments	128,508	97,649	108,385	157,823	302,540
Investment Securities	53,250	70,136	69,019	61,348	57,639
Trading Account, Net	5,661	6,739	8.184	4,554	8,844
Lease Financing Income	9,500	9,190	8,717	8,307	4,672
Fees on Loans	17,150	13,907	12,659	11,140	9,081
Total Interest Income	734,096	604,441	575,427	650,701	829,140
INTEREST EXPENSE FROM:					
Deposits	337,359	262,919	271,430	341,179	483,944
Federal Funds Purchased and Securities Sold Under Agreements to Repurchase	87,822	68,495	58,644	66,213	119,789
Commercial Paper	12,103	8,251	9,177	11,218	26,892
Other Funds Borrowed	4,771	3,065	3,212	3,372	2,776
Notes and Debentures (With Original Maturities over One Year)	14,580	14,517	15,285	18,124	10,934
Total Interest Expense	456,635	357,247	357,748	440,106	644,335
NET INTEREST INCOME	277,461	247,194	217,679	210,595	184,805
Provision for Possible Credit Losses on Loans and Leases	18,785	35,069	21,859	30,345	20,132

	1978	1977	1976	1975	1974
	(in thousands except per share data)				
NET INTEREST INCOME AFTER PROVISIONS FOR POSSIBLE CREDIT LOSSES ON LOANS AND LEASES	258,676	212,125	195,820	180,250	164,673
NON-INTEREST INCOME					
Service Charges, Fees and Commissions	31,468	27,082	24,810	21,532	16,487
Trust Department Fee Income	22,822	21,010	18,398	15,802	17,063
Trading Account Profits and Commissions	665	(164)	2,886	2,782	(498)
Other Operating Income	16,902	12,533	12,460	6,247	6,706
Total Non-Interest Income	71,857	60,461	58,554	46,363	39,758
Total Operating Income Less Interest Expense	330,533	272,586	254,374	226,613	204,431
NON-INTEREST EXPENSE					
Salaries and Wages	88,112	79,296	70,246	64,820	58,223
Pensions, Incentives and Other Employee Benefits	24,800	21,055	18,649	15,787	13,946
Equipment Expense	15,211	12,424	10,075	9,928	8,812
Net Occupancy Expense	13,892	11,721	11,828	11,454	10,318
Shares, Capital and Franchise Taxes	11,466	11,163	9,088	9,054	9,652
Other Operating Expense	55,669	43,272	48,304	42,475	28,722
Total Non-Interest Expense	209,150	178,931	168,190	153,518	129,673
Income Before Income Taxes and Securities Transactions	121,383	93,655	86,184	73,095	74,758
Applicable U.S. and Foreign Income Taxes	35,107	22,793	21,311	9,500	14,164
INCOME BEFORE SECURITIES TRANSACTIONS	86,276	70,862	64,873	63,595	60,594
Securities Gains/(Losses), Net of Income Tax Effects of $3,848,000, $755,000, $725,000, $2,175,000 and $2,227,000	(4,169)	(818)	(786)	(2,357)	(2,846)
NET INCOME	$ 82,107	$ 70,044	$ 64,087	$ 61,238	$ 57,748
PER SHARE DATA					
Income Before Securities Transactions	$4.40	$3.62	$3.31	$3.25	$3.09
Net Income	4.19	3.57	3.27	3.12	2.95
Cash Dividends Paid	1.55	1.375	1.30	1.30	1.30
Average Shares Outstanding	19,599,688	19,599,623	19,597,916	19,597,155	19,599,817

MELLON NATIONAL CORPORATION
(Parent Corporation)

Summary of Operations for Five Years Ended
December 31, 1978

(Not Covered by Accountant's Report)

	1978	1977	1976	1975	1974
INCOME					
Dividends from Wholly-Owned Subsidiaries and Other Equity Investments:					
Mellon Bank, N.A.	$45,278	$35,463	$38,368	$63,310	$38,767
Other	997	1,256	534	210	115
Interest from Subsidiaries	25,259	21,779	21,682	26,761	35,098
Other Income	1,199	171	4,317	3,193	1,849
Total Income	72,733	59,669	64,901	93,474	75,829
Interest Expense:					
Notes and Debentures (With Original Maturities over One Year)	12,479	12,257	14,437	18,495	10,562
Commercial Paper	12,103	8,251	9,177	11,218	26,892
Shares, Capital and Franchise Taxes	9,797	9,556	7,922	8,032	8,725
Other Expense	1,433	1,274	3,037	1,012	1,517
Total Expense	35,812	31,338	34,573	38,757	47,696
INCOME BEFORE INCOME TAXES, UNDISTRIBUTED INCOME/(LOSSES) AND UNDISTRIBUTED SECURITIES GAINS/(LOSSES) OF SUBSIDIARIES	36,921	28,331	30,328	54,717	28,133
U.S. Income Tax Effect	4,467	4,487	4,130	4,228	5,101
INCOME BEFORE UNDISTRIBUTED INCOME/(LOSSES) AND UNDISTRIBUTED SECURITIES GAINS/(LOSSES) OF SUBSIDIARIES	41,388	32,818	34,458	58,945	33,234
Equity in Undistributed Income/(Losses) of Subsidiaries, Excluding Undistributed Securities Gains/(Losses):					
Mellon Bank, N.A.	52,180	41,197	35,920	17,541	29,093
Other Subsidiaries and Affiliates	(7,292)	(3,153)	(5,505)	(12,891)	(1,733)
INCOME BEFORE UNDISTRIBUTED SECURITIES GAINS/(LOSSES)	86,276	70,862	64,873	63,595	60,594
Equity in Mellon Bank, N.A.'s Undistributed Gains/(Losses) on Securities Transactions	(4,169)	(818)	(786)	(2,357)	(2,846)
NET INCOME	$82,107	$70,044	$64,087	$61,238	$57,748

Item 12. Financial statements and schedules filed

Financial statements presented. All survey companies included financial statements of the registrant (parent company) as well as consolidated financial statements of the registrant and its consolidated subsidiaries. Financial statements of consolidated subsidiaries or groups of consolidated subsidiaries engaged in the same business were presented by 7 multi-bank holding companies and by 16 one-bank holding companies in both 1978 and 1977.

Business categories represented by separate financial statements in Form 10-K. Rule 4-02(e) of Regulation S-X, specifies tests for determining when presentation of separate complete financial statements is required for consolidated subsidiaries or groups of consolidated subsidiaries engaged in insurance, securities broker-dealer, finance, savings and loan and banking business. The following tables reflect the impact of this requirement as 23 holding companies presented such separate financials in both 1978 and 1977. For those holding companies presenting separate financial statements in 1978, 7 (5 in 1977) had more than one set of separate financial statements.

Schedules required by Article 12 of Regulation S-X are not required for the separate financial statements presented in compliance with Rule 4-02(e).

Table 82. Business Categories Represented by Separate Financial Statements in Form 10-K

	Multi-bank Holding Companies		One-bank Holding Companies		Total Companies	
	78	77	78	77	78	77
Finance (including finance, factoring, mortgage banking and leasing)	7	5	14	15	21	20
Banking	1	3	8	5	9	8
	8	8	22	20	30	28

Presentation of notes to separate financial statements. The following table shows the manner of presentation of the notes to separate financial statements for the business categories summarized in the table above.

Table 83. Presentation of Notes to Separate Financial Statements

	Multi-bank Holding Companies		One-bank Holding Companies		Total Companies	
	78	77	78	77	78	77
Complete set of separate notes	5	3	6	5	11	8
Reference to notes of consolidated and parent company financials with additional notes added	1	1			1	1
Notes included within those of consolidated and parent company financials	1	3	10	12	11	14
	7	7	16	17	23	23

Schedules filed with registrant (parent company) financial statements. The schedules required to be filed with parent only financial statements are specified in Rule 5-04 of Regulation S-X. Rule 9-01 provides special provisions applicable to three of the schedules specified in Rule 5-04. (Schedules III, IV and X).

The following table shows the parent company schedules included in the Form 10-K reports surveyed for 1978 and 1977. There was at least one schedule present in 41 (44 in 1977) of the Form 10-K reports surveyed in 1978. Revised Article 9 did not change the form and content of parent company schedules.

Table 84. Parent Company Schedules Included in Form 10-K

	Total Companies	
	78	77
Schedule I—Marketable securities	7	8
Schedule III—Investments in, equity in earnings of, dividends received from affiliates and other persons	41	44
Schedule IV—Indebtedness of affiliates and other persons	4	3
Schedule IX—Bonds, mortgages and similar debt	3	5
Schedule XI—Guarantees of securities of other issuers	1	
Schedule XII—Valuation and qualifying accounts and reserves	1	
Schedule XIII—Capital shares	5	5
Schedule XVI—Supplementary income statement information		1

EXAMPLES Schedules specified by Rules 5-04 and 9-01--Parent comapny

NORTHERN TRUST CORPORATION
(Parent Company Only)

SCHEDULE I--MARKETABLE SECURITIES--OTHER SECURITY INVESTMENTS
(In Thousands)

	As of December 31, 1978		
	Principal Amount	Book Value (Note 1)	Market Value
U.S. GOVERNMENT SECURITIES			
Due within one year	$7,400	$7,393	$7,371
Total	$7,400	$7,393	$7,371
FEDERAL AGENCY SECURITIES			
Due within one year	$2,500	$2,498	$2,487
Total	$2,500	$2,498	$2,487
Total Marketable Securities	$9,900	$9,891	$9,858

Note 1--Book value is cost less amortization of premium, plus accretion of discount.

NATIONAL CITY CORPORATION (Parent Company)
(In Thousands)
December 31, 1978

SCHEDULE I--MARKETABLE SECURITIES--OTHER SECURITY INVESTMENTS

COL. A	COL. B	COL. C	COL. D	COL. E
Name of issuer and title of each issue	Number of Shares or Units-principal amount of bonds and notes	Cost of each issue	Market Value	Book Value
Securities of United States Government Agencies	$370	$370	$354	$370

NORTHWEST BANCORPORATION
(Corporation Only)
SCHEDULE III--INVESTMENTS IN, EQUITY IN EARNINGS OF, AND DIVIDENDS
RECEIVED FROM SUBSIDIARIES
Year ended December 31, 1978

	Balance at beginning of period				Additions		Deductions	Balance at end of period			
Name of issuer and description of investment	Capital Notes (Note 1)	Number of shares	Percent of total outstanding	Amount in dollars	Equity taken up in earnings (losses) of subsidiaries	Other (Note 6)	Distribution of earnings by subsidiaries	Capital notes (Note 1)	Number of shares	Percent of total outstanding	Amount in dollars (Note 7)
	(In thousands of dollars)										
PART I--Banks											
Northwestern National Bank of Minneapolis (Note 5)	$ 20,000	393,682	98.4%	$143,106	$21,899	$10,000	$ 7,284	$ 30,000	591,021	98.5%	$167,721
Iowa-Des Moines National Bank	9,000	99,066	99.0	33,335	3,572	21	1,586	9,000	99,128	99.1	35,342
Northwestern National Bank of Sioux Falls	5,000	53,761	99.3	19,492	3,400	(4)	926	5,000	53,751	99.5	21,962
The United States National Bank of Omaha	4,000	59,651	99.4	18,865	3,187	(6)	1,193	7,000	59,631	99.4	20,853
Northwestern National Bank of St. Paul	4,000	64,716	99.6	18,299	1,626	-	258	4,000	64.716	99.6	19,667
First National Bank of the Black Hills, Rapid City	4,000	44,653	99.2	16,950	2,929	-	1,232	4,000	67,203	99.1	18,647
First National Bank of Aberdeen	5,500	29,654	98.8	14,734	2,429	-	929	5,500	29,740	99.1	16,234
Other banks, not individually exceeding two percent of total assets (Note 2)	70,600			283,282	45,012	6,755	16,895	75,400			318,154
Total--Banks	122,100			548,063	84,054	16,766	30,303	139,900			618,580
PART II--Other Subsidiaries											
Banco Mortgage Company (Note 5)	8,000	1,000	100.0	5,236	1,780	-	300	8,000	1,000	100.0	6,716
Northwest Agricultural Credit Company	4,000	22,500	100.0	3,334	430	-	-	4,000	22,500	100.0	3,764
Banco Financial Corporation	2,000	2,500	100.0	5,179	1,007	-	-	4,000	2,500	100.0	6,186
Other subsidiaries, not individually exceeding two percent of total assets (Note 3)	-			7,201	3,824	999	448	-			11,576
Total--Other Subsidiaries	14,000			20,950	7,041	999	748	16,000			28,242
Total	$136,100			$569,013	$91,095	$17,765	$31,051	$155,900			$646,822

NOTES:

(1) All capital notes of subsidiaries which were issued and outstanding at December 31, 1977 and 1978, were owned by the Corporation and contain the following provisions:
   (a) Interest payable semi-annually April 15 and October 15 at the following rates:
   Maturing October 15, 1990: 4.75%--$19,900,000; 5.50%--$2,600,000; 6.00%--$1,900,000; 7.50%--$300,000; 9.00%--$4,300,000
   (b) Interest payable semi-annually March 15 and September 15 at the following rates:
   Maturing March 15, 2003: 7.85%--$29,100,000; 8.00%--$300,000; 8/50%--$3,750,000; 9.00%--$20,250,000
   Maturing September 15, 1986: 8.00%--$62,100,000; 9.00%--$11,400,000
   (c) At the election of the borrowers, the capital notes due 1990 are redeemable, in whole or in part at the principal amount plus a redemption premium ranging from 1.55% in 1979 to .20% in 1986 and thereafter without premium.
   (d) The capital notes due 2003 are payable in twenty consecutive annual mandatory installments of 2.50% of the original principal amounts each payable on March 15 in each year commencing in the year 1983 and one final mandatory installment of the unpaid balance of principal payable on March 15, 2003. No prepayment of principal may be made prior to March 15, 1983. At the option of the borrowers, the capital notes due 2003 are redeemable, in whole or in part, at the principal amount plus a prepayment premium ranging from 4.65% in 1983 to .31% in 1997 and thereafter without premium.
   (e) The capital notes due 1986 are not redeemable prior to September 15, 1983, but may be redeemed thereafter, in whole or in part, at the principal amount plus accrued interest.
   (f) Unsecured by payment subordinated to claim of depositors and other creditors.

(2) Average ownership interest in 77 banks is 95.8%.

(3) All other subsidiaries are 100% owned except for the trust companies in Montana, Nebraska, North Dakota and South Dakota which are 97.2%, 99.9%, 96.4% and 99.1% owned, respectively, and Northwest Growth Fund, Inc. which is 55.6% owned.

(4) All stock of subsidiaries is common stock.

(5) Figures included after consolidation of wholly-owned subsidiaries.

(6) Represents in general, dividends paid on bank stock which Northwest Bancorporation holds options to purchase at par value and purchases of additional interest in subsidiaries, recorded at net book value. Also includes equity investments of $1,000,000 in Northwestern-Arizona Trust Co. Other investments include the purchase of the First National Bank of Marion, Iowa for $4,871,000 and a stock subscription of $10,000,000 in the Northwestern National Bank of Minneapolis.

(7) Reconciling difference of $149,000 between the ending investment in common stock of subsidiaries on Schedule III and the Corporation only statements of financial condition is an incentive compensation accrual of $149,000 recorded at the corporate level for 1978 (which will be paid and recorded by the banks in 1979).

BANKERS TRUST NEW YORK CORPORATION
(Note to financial statement in lieu of Schedule III)

Note 17--Investment in Subsidiaries and Affiliates

The following table shows the changes in the Parent Company's investment in net assets of subsidiaries and affiliates for the years ended December 31, 1978 and 1977: (dollars in thousands)

	Balance, Beginning-of-Year		Additions		Deductions		Balance, End-of-Year	
	Number of Shares	Amount	Equity in Earnings	Additional Investments	Dividends Declared	Other	Number of Shares	Amount
1978								
Banks--100% Owned								
Bankers Trust Company	20,000,000	$ 951,978	$77,624	$24,363(B)	$45,700	$ -	20,000,000	$1,008,265
Other Banks	1,014,212	78,105	6,365	-	-	-	1,014,212	84,470
Total Banks	21,014,212	1,030,083	83,989	24,363	45,700	-	21,014,212	1,092,735
Band Related Subsidiaries--100% Owned	2,560	7,802	4,392	300	2,000	-	2,560	10,494
Affiliates	270	332	26	-	-	-	270	358
Total Bank Related	2,830	8,134	4,418	300	2,000	-	2,830	10,852
Total	21,017,042	$1,038,217	$88,407(A)	$24,663	$47,700	$ -	21,017,042	$1,103,587
1977								
Banks--100% Owned								
Bankers Trust Company	10,000,000	$ 877,608	$57,238	$48,831	$31,605	$ 94	20,000,000	$ 951,978
Other Banks	1,014,212	72,405	5,500	200	-	-	1,014,212	78,105
Total Banks	11,014,212	950,013	62,738	49,031	31,605	94	21,014,212	1,030,083
Bank Related Subsidiaries--100% Owned	2,560	7,073	1,990	2,000	3,261(C)	-	2,560	7,802
Affiliates	270	289	43	-	-	-	270	332
Total Bank Related	2,830	7,362	2,033	2,000	3,261	-	2,830	8,134
Total	11,017,042	$ 957,375	$64,771(A)	$51,031	$34,866	$ 94	21,017,042	$1,038,217

(A) Reconciliation of equity in earnings of subsidiaries and affiliates with related amounts on the Parent Company Only statement of income:

	1978	1977
Dividends from subsidiaries	$47,700	$34,866
Equity in undistributed income of subsidiaries and affiliates excluding securities transactions	41,473	30,365
Equity in undistributed securities transactions of subsidiaries less applicable tax benefit	(766)	(460)
Equity in earnings	$88,407	$64,771

(B) Represents capital contributions of loans purchased by the Parent Company from a bank related subsidiary.

(C) Includes $2,511 of non-cash assets.

Included in other assets on the Corporation's consolidated statement of condition are investments in affiliates and other persons accounted for by the equity method amounting to $21,206 thousand and $34,847 thousand at December 31, 1978 and 1977, respectively.

The bank related subsidiaries (BT Credit Co., Inc., BT Leasing Corp., BT Leasing Services Inc., Sackman-Gilliland Corporation and BT Advisors, Inc.) account for $38,147 thousand and $59,301 thousand of the Corporation's consolidated assets at December 31, 1978 and 1977, respectively.

In the normal course of business, there are various lending, borrowing and service arrangements among affiliated companies, the material amounts of which are disclosed in the financial statements or notes thereto.

The service fees to subsidiaries shown on the Parent Company Only statement of income are payments primarily to a bank related subsidiary for services performed in connection with the credit card loans of the Parent Company.

REPUBLIC OF TEXAS CORPORATION (Parent Only)
SCHEDULE III--INVESTMENT IN, EQUITY IN EARNINGS OF AND DIVIDENDS RECEIVED FROM AFFILIATES

(Data for 1977 omitted from this example)

Years Ended December 31, 1977 and 1978

($ in thousands)

	January 1,		Additions		Deductions		December 31,	
Name of Issuer	Number of Shares	Dollar Amount	Equity Taken Up in Earnings (g)	Other	Dividends	Other	Number of Shares	Dollar Amount
1978:								
Wholly Owned Subsidiary Banks:								
Republic National Bank of Dallas	11,000,000	$291,164	$47,565	$	$15,399	$	11,000,000	$323,330
Houston National Bank	4,500,000	55,960	6,550		2,250		4,500,000	60,260
First Bank & Trust, Lufkin	110,000	5,757	934		320		220,000	6,371
First National Bank in Henderson	50,000	2,725	558		160		100,000	3,123
First Bank in Groveton	50,000	1,363	232		70		50,000	1,525
Braes Bayou National Bank	40,000	955	42				40,000	997
First National Bank in Brownwood	48,115	3,581	591		160		100,000	4,012
First National Bank in Garland	235,546	6,664	1,055		354		400,000	7,365
Dallas National Bank	100,306	3,924	588		170		100,306	4,342
Midway National Bank of Grand Prairie	37,500	2,495	196		100		37,500	2,591
First Bank & Trust, Carrollton	100,000	2,481	212		90		100,000	2,603
Ridglea Bank, Fort Worth			884	10,700(c)	360		100,000	11,224
Bexar County National Bank, San Antonio			528	14,145(c)	400		300,000	14,273
Greenville Avenue Bank & Trust			284	8,255(c)	130		420,000	8,409
First National Bank in Mineral Wells			153	5,655(c)	170		60,000	5,638
Total		$377,069	$60,372	$38,755	$20,133	$ -		$456,063
Other:								
Republic of Texas Company	1,000	$ 609	$ (198)	$	$	$	1,000	$ 411
First State Corporation, Lufkin	1,000	(30)	(35)				1,000	(65)
F.N.B. Corporation, Henderson	1,000	6	2				1,000	8
Republic of Texas Trust Company				500(e)			100,000	500
Exchange Security and Investment Company	1,000	814	82		100		1,000	796
Republic Money Orders, Inc.	5,000	2,808	761				5,000	3,569
Republic National Mortgage Corporation of Texas	100,000	307	189	1	50		100,000	447
Real Estate Joint Ventures	5,000	(1,749)	(825)		9		5,000	(2,583)
Republic National Company	1,000	1					1,000	1
RB&C			(28)	54(c)				26
		2,766	(52)	555	159	-		3,110
Unconsolidated investee banks		12,163	870	-	280	8,415(f)		4,338
		$ 14,929	$ 818	$ 555	$ 439	$8,415		$ 7,448

NOTES

(a) Cash dividends paid prior to merger.

(b) Capital arising from acquisitions.

(d) Received in dissolution of the Howard Corporation, et al.

Exchange Security and Investment Company.
Real Estate Joint Ventures.
Republic Money Orders, Inc.
Republic National Mortgage Corporation of Texas.
Investee Banks.

(e) Capitalization of Republic of Texas Trust Company.

(f) Sale of Preston State Bank, Hillcrest State Bank and First National Bank in Duncanville in 1978 and acquisition of Greenville Avenue Bank & Trust, Dallas and First National Bank in Mineral Wells previously accounted for as unconsolidated minority-owned investee banks.

(g)

	Years Ended December 31,	
	1977	1978
	($ in thousands)	
Reconcilement of earnings		
Subsidiary banks	$44,851	$60,372
Others	32,452	(52)
	77,303	60,320
Less:		
Cash dividends received:		
Subsidiary banks	(14,984)	(16,028)
Other	-	(38)
Equity in undistributed earnings of subsidiaries	$62,319	$44,254
Equity in undistributed earnings from continuing operations of subsidiaries excluding securities transactions	$35,045	$46,743
Equity in securities transactions, net of taxes	21	(1,664)
Equity in income from discontinued operations of subsidiaries, net of taxes	27,253	(825)
	$62,319	$44,254

FIRST NATIONAL BOSTON CORPORATION
(Parent Company)

SCHEDULE IV--INDEBTEDNESS OF AFFILIATES AND OTHER PERSONS
(In thousands)

Column A	Column B	Column C	
	Balance at Beginning of Period	Balance at End of Period	
Name of Person	January 1, 1977	December 31, 1977	December 31, 1978
The First National Bank of Boston	$ 31,366	$ 86,587	$ 53,449
Bank of Boston International Los Angeles (a subsidiary of FSC Corp.)	-	2,500	-
Banks	31,366	89,067	53,449
FSC Corp.	177,240	216,550	275,215
FNB Services Incorporated	3,772	1,911	230
Massachusetts Tankers, Inc.	15,543	14,979	14,577
First of Boston Mortgage Corporation	53,422	75,163	132,552
Non-Banks	249,977	308,603	422,574
	$281,343	$397,690	$476,023

The changes in the amounts of indebtedness of affiliates represent the fluctuation in the working capital needs of the affiliates. The Corporation utilizes, in part, the proceeds of its intermediate-term notes as well as the proceeds of commercial paper to provide resources to its subsidiaries as part of the overall management of the Corporation's consolidated liabilities.

FIRST NATIONAL BOSTON CORPORATION
(Parent Company)

SCHEDULE XII--VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

Column A	Column B	Column C	Column D	Column E	
		Additions			
Description	Balance at Beginning of Period	(1) Charged to Costs and Expenses	(2) Charged to Other Accounts--Describe	Deductions--Loan Charge-Off	Balance at End of Period
	(In Thousands) For the Year Ended December 31, 1977				
Reserve for Possible Credit Losses	$1,323	$ 402			$1,725
	For the Year Ended December 31, 1978				
Reserve for Possible Credit Losses	$1,725	$4,405		$2,630	$3,500

(Excerpt from notes to financial statements)

In the parent company financial statements, loans consist primarily of commercial loans purchased from the Bank. The outstanding principal amount of loans on which management has established full or partial reserves against the related accrued interest receivable was $6,770,000 at December 31, 1978 and $11,700,000 at December 31, 1977. The provision for uncollectible accrued interest receivable deducted from interest and fees on loans amounted to $886,000 in 1978 and $932,000 in 1977. The related reserve for uncollectible accrued interest receivable was $1,451,000 and $932,000 at December 31, 1978 and December 31, 1977, respectively.

Schedules filed with consolidated financial statements. Revised Article 9 of Regulation S-X governs the form and content of consolidated schedules filed for years beginning after December 24, 1978. Table 85 shows the number of consolidated schedules filed for 1978 evidencing early compliance with Article 9. The examples which follow also illustrate early compliance. Table 86 shows the number of schedules filed under the old Rule 9.05 and Regulation F which have been changed by the above noted revisions to Article 9.

Table 85. Consolidated Schedules Included in Form 10-K—Based on Revised Article 9

	Multi-bank Holding Companies	One-bank Holding Companies
Schedule I—Amounts receivable from certain persons	4	4
Schedule III—Bonds, mortgages and similar debt	2	1
Schedule V—Capital shares	1	
Schedule VI—Other securities		1

Table 86. Consolidated Schedules Included in Form 10-K—Based on Old Rule 9.05 and Regulation F.

	Total Companies	
	78	77
Schedule I—Marketable securities	19	35
Schedule II—Other securities	14	31
Schedule III—Details of loans	9	22
Schedule IV—Premises and equipment	10	21
Schedule VI—Liabilities for borrowed money	5	12
Schedule VIII—Amounts receivable from directors, officers and principal holders (other than affiliates) of equity securities of the person and its affiliates	2	8
Schedule IX—Supplementary income statement information	14	23

EXAMPLES Consolidated Schedules specified by Article 9--Rule 9-05

WESTERN BANCORPORATION
SCHEDULE I--AMOUNTS RECEIVABLE FROM CERTAIN PERSONS

Year Ended December 31, 1978

Column A	Column B	Column C	Column D		Column E	
			Deductions		Balance at End of Period	
			(1)	(2)	(1)	(2)
Name of Debtor	Balance at Beginning of Period	Additions	Amounts Collected	Amounts Written Off	Current (due within one year)	Not Current (due after one year)
(1) XXX	$ 600,000	$ 450,000	$ 600,000	$	$ 450,000	$
(2) XXX	522,361	74,000	279,464		186,923	129,974
(3) XXX	1,212,491	625,000	277,962		1,488,245	71,284
(4) XXX	2,429,472	235,000	611,071		447,448	1,605,953
(5) XXX	3,743,622	30,915,000	27,662,023		6,219,233	777,366
(6) XXX	1,809,753	550,724	458,455		206,593	1,695,429
(7) XXX	16,919,550	16,326,319	25,139,112		2,988,391	5,118,366
(8) XXX	2,650,000		1,350,000		1,300,000	
(9) XXX	686,291	1,058,889	1,386,815		61,571	296,794
(10) XXX	14,881,348	26,081,656	18,987,970		18,404,373	3,570,661
(11) XXX	1,053,442	1,007,841	1,312,780		406,887	341,616
(12) XXX	1,136,668	25,000	150,951		242,901	767,816

Note: Aggregate indebtedness shown above includes indebtedness owned by persons named and indebtedness of business in which such persons are general partners or have a ten percent interest, trusts and estates in which they have a substantial beneficial interest or for which they serve as trustee or in a similar capacity, and relatives living in their home. All of the individuals listed above are directors of the Corporation or principal affiliates. No loans have been made to persons related to the Corporation or its principal subsidiaries as executive officers or principal holders of equity securities which are required to be listed on this schedule. Instalment loans to the above individuals are not listed above as permitted by Rule 9-05. All loans listed were made by Affiliated Banks in the ordinary course of business at the banks' normal credit terms, including interest rate and collateralization prevailing at the time for comparable transactions with other persons, and do not represent more than a normal risk of collection. Details regarding the above loans are as follows:

	Due Date			Rate			Terms of Repayment	Collateral
(1)	3/79	-	12/79		Floating Prime		At Maturity	Stock
(2)	6/79	-	7/79		Prime		At Maturity	Unsecured
			10/97		8.75		Monthly	Real Estate
(3)	1/79	-	6/79	6.75	-	9.50	At Maturity	Stock
			2/92		8.50		Monthly	Real Estate
(4)	1/79	-	3/79	9/50	-	12.00	At Maturity	Unsecured
	10/83	-	1/86	8.25	-	Prime + 1	Monthly	Unsecured
			2/91		9.00		Monthly	Real Estate
(5)			7/79		Prime + 1/4		At Maturity	Accounts Receivable
	11/80	-	9/81	9.50	-	Prime + 3/4	Monthly	Unsecured
	6/84	-	1/02	5.75	-	8.50	Monthly	Real Estate
(6)	7/93	-	1/00	7.75	-	8.25	Monthly	Real Estate
	1/79	-	2/79	9.25	-	12.00	At Maturity	Unsecured
			1/86		8.25		Monthly	Unsecured
(7)	1/79	-	12/86	9.50	-	11.00	Monthly	Equipment and Accounts Receivable
	1/79	-	8/83	10.50	-	12.75	At Maturity	Stock
(8)			3/79		11.75		At Maturity	Unsecured
(9)			1/91		9.00		Monthly	Real Estate
	Various				Prime + 1/4		Various	Accounts Receivable
(10)			5/06		8.25		Monthly	Real Estate
	1/79	-	10/79	10.25	-	Prime + 1-1/4	At Maturity	Unsecured
	9/79	-	12/81	Prime + 1-1/4	-	Prime + 1-1/2	Monthly	Unsecured
	Various			Prime + 1	-	Prime + 1-1/2	Various	Accounts Receivable, Personal Prop.
(11)	1/80	-	3/81	5.50	-	9.00	Monthly, Quarterly	Real Estate
			9/82			9.25	Quarterly	Unsecured
			1/79	9.00	-	10.00	At Maturity	Unsecured
(12)	7/85	-	2/97	5.50	-	9.50	Monthly	Real Estate
	11/80	-	7/82	8.75	-	Prime + 3/4	Monthly	Unsecured
	Various			7.25	-	8.25	Monthly	Equipment
			2/79			12.00	At Maturity	Unsecured

CHARTER NEW YORK CORPORATION
SCHEDULE I--AMOUNTS RECEIVABLE FROM CERTAIN PERSONS

(In Thousands)

Name of Debtor*	Maturity	Rate of Interest	Origination Date of Fixed Rate Loans	Terms of Repayment	Collateral	Balance Jan. 1, 1978	Additions	Deductions		Balance Dec. 31, 1978
								Collected	Charged Off	
XXX	Demand	8-1/2%	11-12-76	On Demand	2nd Mortgage	$ 92	$ -	$ 92	$ -	$ -
XXX	Demand	Prime		On Demand	1st Mortgage	50	-	-	-	50
XXX	Demand	Prime + 1/2%		On Demand	Unsecured	15	-	-	-	15
XXX	2- 4-80	Prime + 1-1/2%		Monthly	Unsecured	92	-	14	-	78
XXX	Demand	Prime + 1%		On Demand	Unsecured	-	10	-	-	10
XXX	10-31-81	Prime + 1%		Monthly	Inventory, Chattel Mortgage and Assignment of Lease	47	-	16	-	31
XXX	6- 1-98	8-1/2%	5-23-73	Monthly	1st Mortgage	959	-	16	-	943
XXX	11-15-78	8-1/2%	9-15-71	Monthly	Chattel Mortgage and Assignment of Leases	16	-	16	-	-
XXX	10- 1-83	Prime + 1-3/4%		Monthly	Chattel Mortgage	401	-	39	-	362
XXX	1- 1-92	8-3/4%	1-12-72	Monthly	1st Mortgage	700	-	16	-	676
XXX	8-30-78	8-1/2%	5-15-62	Monthly	Guarantees	16	-	16	-	-
XXX	Demand	Prime + 1%		Monthly	Unsecured	43	-	14	-	29
XXX	Demand	Prime		On Demand	Unsecured	41	394	41	-	394
XXX	Demand	Prime		On Demand	Unsecured	-	1,500	1,500	-	-
XXX	Demand	Prime		On Demand	Unsecured	-	1,000	1,000	-	-
XXX	12-12-83	Prime + 1/2%		Annually	Guarantees	6,000	-	6,000	-	-
XXX	10- 1-80	Prime + 1%		Monthly	Inventory, Chattel Mortgage and Assignment of Lease	63	-	20	-	43
XXX	Demand	Prime		On Demand	Unsecured	1,998	1,797	3,795	-	-
XXX	1-31-79	Prime		One Payment	1st Mortgage	-	4,500	-	-	4,500
XXX	Demand	Prime + 1/2%		Monthly	Chattel Mortgage	10	-	10	-	-
XXX	11-1-2004	8%	3-27-73	Monthly	1st Mortgage and Assignment of Lease	9,721	-	108	-	9,613
XXX	Demand	Prime		On Demand	Unsecured	100	-	-	-	100
Total						$20,364	$9,201	$12,721	$ -	$16,844

*All debtors are related to Mr. XXX, Director of Charter New York Corporation.

In addition to the above, a standby letter of credit exists in the amount of $107,000, expiring August 24, 1979, for the benefit of Mr. XXX and another individual. The related fee is 1%.

(Note: Similar schedule was provided for 1977 but is omitted from this example)

FIRST PENNSYLVANIA CORPORATION
SCHEDULE I--AMOUNTS RECEIVABLE FROM CERTAIN PARTIES (1)
Year Ended December 31, 1978
(In Thousands)

Name of debtor and type of loan	Due Date	Interest Rate	Collateral	Balance at beginning of year	Additions	Deductions		Balance at end of year	
						Amount Collected	Amount written-off	Current	Not Current
XXX and affiliated companies (2)									
Revolving credit	1/31/79	Prime + 1/2%	Certain real estate notes receivable and securities	$ -	$ 9,750	$ -	$ -	$ -	$ 9,750
Revolving credit	3/31/80	Prime + 1/2%	Unsecured	13,000	-	884	-	-	12,116
Purchase of accounts receivable	Demand	Prime + 2%	Accounts receivable	5,523	477	-	-	-	6,000
Letters of Credit (3)	Ann. Renewal	Prime + 2%	Unsecured	-	443	-	-	-	443
Bankers Acceptances	Ann.	Commission 1-1/2	Unsecured	-	571	-	-	-	571
XXX Inc. (2) Term loan	9/30/80	P+1-1/2%	Installment contracts receivable	4,753	-	1,025	-	3,728	
XXX (2) (3) Collateral loans	Demand	P+1/4%	Marketable securities	553	-	3	-	550	
XXX Collateral loans	Demand	P+1/4%	Marketable securities	398	-	-	-	-	398
				$24,227	$11,241	$1,912	$	$4,278	$29,278

(1) All amounts receivable shown in this schedule were owing to First Pennsylvania Bank, N.A. (the "Bank"), a subsidiary of First Pennsylvania Corporation (the "Corporation").

(2) XXX was a director of the Corporation until September 30, 1978. XXX, Inc., XXX, Inc., and XXX (a partnership) may be deemed to be related to Mr. XXX as provided in section 210.9-05 of SEC Regulation S-X. On October 2, 1978, XXX, Inc., and several of its affiliated corporations filed petitions for arrangements under Chapter II of the Bankruptcy Act.

(3) Under previously issued letters of credit, the Bank may advance an additional $900,000 to XXX, Inc., and affiliated companies and $111,000 to Mr. XXX.

PITTSBURGH NATIONAL CORPORATION

SCHEDULE I--AMOUNTS RECEIVABLE FROM CERTAIN PERSONS

(In thousands of dollars)

Column A	Column B	Column C	Column D		Column E	
	Balance at Beginning of Period		Deductions		Balance at End of Period	
Name of Debtor		Additions	Amounts Collected	Amounts Written Off	Current	Not Current
1977						
Affiliates of XXX, Director	$15,859	$10,000	$10,308	-	$15,551	-
XXX, Director	1,699	-	-	-	1,699	-
1978						
Affiliates of XXX, Director	15,551	750	8,161	-	8,140(1)	-
XXX, Director	1,699	-	-	-	1,699(2)	-

(1) Various maturity dates to September 30, 1981, rates ranging from 1/2% to 3/4% over the prime lending rate; $4,500,000 unsecured, $3,640,000 secured.

(2) Demand notes, bearing interest at 11-3/4%, unsecured.

PHILADELPHIA NATIONAL CORPORATION
Schedule I
Amounts Receivable From Certain Persons
(Amounts in thousands)

Name of Debtor	Balance At January 1, 1978	Reductions (Amounts Collected)	Balance At December 31, 1978
XXX	$2,000	$375	$1,625

Represents an unsecured loan, with an interest rate of Prime plus 1%, payable quarterly with the final payment due 12/31/80. A principal holder of equity securities of this debtor is a director of Philadelphia National Corporation.

RAINIER BANCORPORATION
(Consolidated)

Schedule in Support of Statement Of Income
December 31

Schedule I--Amounts Receivable from Certain Persons

(In Thousands of Dollars)

Column A	Column B	Column C	Column D		Column E	
	Balance January 1		Deductions		Balance December 31	
Name of Debtor		Additions	Collected	Written Off	Current	Not Current
1978						
XXX	$531	None	None	None	None	$531
1977						
XXX	$531	None	None	None	None	$531

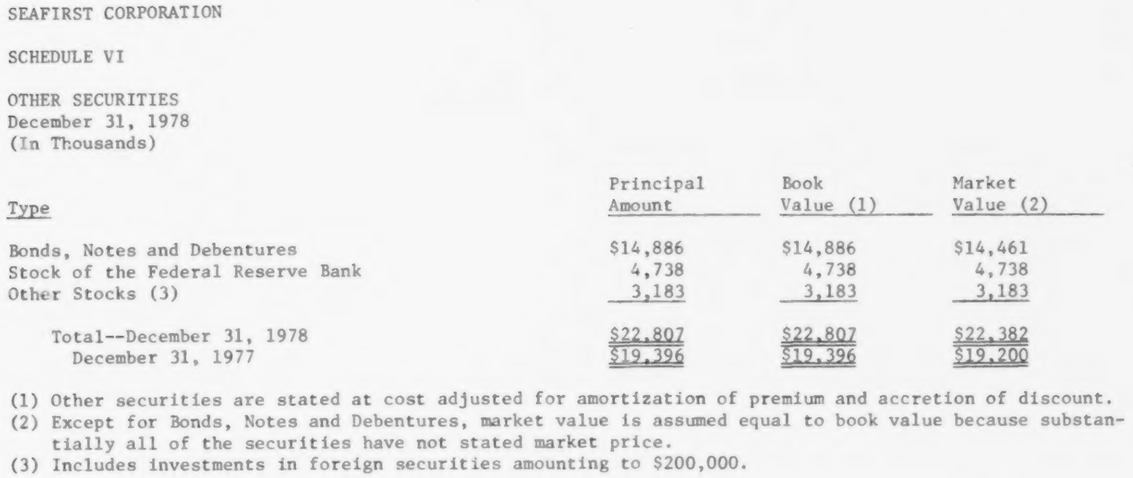
Under a purchase agreement, as amended, Mr. XXX purchased from the Company 50,000 shares of common stock of the company in 1973 at the then existing bid price of $10,625 per share for a total purchase price of $531,250, to be paid in ten annual installments commencing on August 14, 1980, with interest at the rate of 5 percent per annum, or 80 percent of the dividends payable on these shares during-month period, whichever is higher, provided that the rate of interest shall not be in excess of the prime rate.

Incorporation of financial statements by reference. Incorporation of financial statements by reference to a registration statement, proxy statement, or annual report to shareholders is permitted by Rule 12b-23, and is generally acceptable if the information incorporated by reference substantially meets the requirements of the form being filed.

Table 87 shows that 28 of the reports surveyed in 1978 (35 in 1977) incorporated financial statements in Form 10-K by reference. Four of the survey companies issued a "combined" 10-K and annual report to shareholders and these are included in the "without incorporation" statistics for 1978.

Table 87. Incorporation of Financial Statements by Reference

	Multi-bank Holding Companies		One-bank Holding Companies		Total Companies	
	78	77	78	77	78	77
Number of reports which included:						
Financial statements incorporated by reference from annual report to shareholders	14	17	14	18	28	35
Financial statements and schedules in report without incorporation by reference	11	8	11	7	22	15
	25	25	25	25	50	50



SEAFIRST CORPORATION

SCHEDULE VI

OTHER SECURITIES
December 31, 1978
(In Thousands)

Type	Principal Amount	Book Value (1)	Market Value (2)
Bonds, Notes and Debentures	$14,886	$14,886	$14,461
Stock of the Federal Reserve Bank	4,738	4,738	4,738
Other Stocks (3)	3,183	3,183	3,183
Total--December 31, 1978	$22,807	$22,807	$22,382
December 31, 1977	$19,396	$19,396	$19,200

(1) Other securities are stated at cost adjusted for amortization of premium and accretion of discount.
(2) Except for Bonds, Notes and Debentures, market value is assumed equal to book value because substantially all of the securities have not stated market price.
(3) Includes investments in foreign securities amounting to $200,000.

Additional notes to financial statements. When financial statements were incorporated in Form 10-K by reference, 39% of the reports (43% in 1977) included additional notes in Form 10-K. Additional notes are usually included for one or more of the following reasons:

1. To supply information required by Regulation S-X in notes to financial statements which is not required by generally accepted accounting principles.
2. To supply information called for in the schedules prescribed by Regulation S-X which is not required by generally accepted accounting principles.
3. To report an event which has occurred subsequent to the issuance of the annual report to shareholders.

The number of notes included and the topics discussed varied considerably as shown in the following tables.

Table 88. Inclusion of Additional Notes to Financial Statements

	Multi-bank Holding Companies		One-bank Holding Companies		Total Companies	
	78	77	78	77	78	77
Number of reports including financial statements incorporated by reference which:						
Included additional notes	7	7	4	8	11	15
Did not include additional notes	7	10	10	10	17	20
	14	17	14	18	28	35
Number of reports containing:						
One to three additional notes	6	3	2	5	8	8
Four to six additional notes	1	4	2	3	3	7
	7	7	4	8	11	15

EXAMPLE Index to financial statements incorporated by reference

TEXAS COMMERCE BANCSHARES, INC.
Index to Financial Statements

	Page
Reports of Independent Auditors	F-2
Financial Statements:	
Texas Commerce Bancshares, Inc. and Subsidiaries:	
Consolidated Balance Sheets--December 31, 1978 and 1977	(1)
Consolidated Income Statements--Years ended December 31, 1978 and 1977	(1)
Consolidated Statements of Changes in Stockholders' Equity--Years ended December 31, 1978 and 1977	(1)
Consolidated Statements of Changes in Financial Position--Years ended December 31, 1978 and 1977	(1)
Notes to Financial Statements	(1)
Texas Commerce Bancshares, Inc. (Parent Company Only):	
Balance Sheets--December 31, 1978 and 1977	(1)
Income Statements--Years ended December 31, 1978 and 1977	(1)
Statements of Changes in Stockholders' Equity--Years ended December 31, 1978 and 1977	(1)
Statements of Changes in Financial Position--Years ended December 31, 1978 and 1977	(1)
Notes to Financial Statements	(1)
Additional Notes to Financial Statements	F-3

(1) These financial statements and notes to financial statements appearing on pages 34 through 49 inclusive in the accompanying Texas Commerce Bancshares 1978 Annual Report are incorporated herein by reference to such annual report being filed as an exhibit hereto.

Table 89. Topics Discussed in Additional Notes to Financial Statements
(Financial Statements Incorporated by Reference)

	Multi-bank Holding Companies		One-bank Holding Companies		Total Companies	
	78	77	78	77	78	77
Number of reports including additional notes discussing:						
Notes to fulfill requirements of Regulation F-9		5	4	8	4	13
Notes to fulfill schedule requirements of Regulation S-X	3	2	2		5	2
Bank premises and equipment		2	2	2	2	4
Stock options	3	5	3	4	6	9
Short-term borrowings	4	3		2	4	5
Income taxes			2	3	2	3
Incentive plans	2	2			2	2
Retirement plans	1	2			1	2
Statutory restrictions on dividends				2		2
Loans				1		1
Commitments		1				1
Investment in subsidiaries	1	1			1	1
Subsequent events	1				1	
Preferred stock	1				1	
Additional accounting policies	1				1	
Investment securities			2		2	
Deposits in foreign offices			1		1	
Number of reports including additional notes	7	7	4	8	11	15

Comparison of financial statements included in Form 10-K with annual report to shareholders. As noted in Table 90, 22 of the 1978 reports surveyed did not incorporate financial statements in Form 10-K by reference. A comparison of these reports with the annual reports to shareholders revealed that 10 included additional disclosures in the notes to financial statements filed in Form 10-K which were not in the annual report to shareholders. The following table indicates the topics covered in the additional disclosures.

Table 90. Disclosures Made in Form 10-K Which Were not Made in Annual Report to Shareholders
(Annual Report to Shareholders not Incorporated by Reference)

	Multi-bank Holding Companies		One-bank Holding Companies		Total Companies	
	78	77	78	77	78	77
Number of reports which included additional disclosures discussing:						
Notes to fufill schedule requirements of Regulation S-X		3	4	3	4	6
Statutory restrictions on dividends			1	1	1	1
Short-term borrowings	1	2	3		4	2
Other commitments and contingent liabilities		1	1	1	1	2
Incentive and retirement plans	1		1		2	
Stock options	2		1		3	
Change in accounting policies			1		1	
Long-term notes and debentures	1		1		2	
Number of reports including additional disclosures	4	4	6	3	10	7

Footnote disclosures. Following are examples of footnote disclosures included either in separate footnotes or incorporated by reference in Form 10-K filings which respond to certain rules of Regulation S-X requiring disclosures by bank holding companies.

EXAMPLES Disclosures in response to Rule 3-16(b)--Principles of translation of items in foreign currencies

FIRST INTERNATIONAL BANCSHARES, INC.

Summary of Significant Accounting Policies

Income and expenses of foreign subsidiaries, offices and branches are included in the appropriate income and expense captions in the consolidated statement of earnings. The consolidated statement of condition includes the assets and liabilities of foreign subsidiaries, offices and branches. Income and expense accounts are translated into United States dollars monthly at prevailing rates, nonmonetary asset and liability accounts are translated in United States dollars at historical exchange rates and monetary asset and liability accounts are translated into United States dollars at year-end exchange rates. Exchange adjustments, which are not material, are recognized in earnings currently. Outstanding foreign exchange commitments are revalued monthly at appropriate market rates, and any gain or loss is recognized.

BANKAMERICA CORPORATION

Significant Accounting Policies

Foreign Currency Transactions

Gains and losses recorded under foreign exchange activities result from two functions: foreign exchange trading, which related directly to customer and correspondent bank activity; and financial statement translation results, modified by the hedging of equity and branch capital investments denominated in foreign currency.

Assets and liabilities denominated in other than local currency, as well as all foreign exchange contracts, are valued at their respective market rates each month. Gain or loss arising from foreign exchange trading activities is recorded as trading profit or loss. Premiums or discounts associated with funding of loans from deposits of a different currency (investment swaps) are accrued and treated as interest revenue or expense.

The financial statements of overseas branches and subsidiaries are translated into U.S. dollars for consolidation purposes using year-end exchange rates, with the exception that premises and equipment are generally translated at the prevailing exchange rate at the time of acquisition. Foreign exchange contracts that hedge equity and branch capital investments are valued monthly at current market rates, and the gain or loss, netted against translation results, is recognized as foreign exchange income or expense.

EXAMPLES Disclosures in response to Rule 3-16(h)--Restrictions which limit the availability of retained earnings for dividend purposes

NORTHWEST BANCORPORATION

Long-Term Debt

Terms of the indentures relating to the Corporation's debentures include, (1) limitations on additional funded debt and other indebtedness incurred or guaranteed by the Corporation and (2) restrictions on the payment of dividends, other than dividends payable in stock of the Corporation, and the purchase or redemption of stock. Retained earnings free of indenture restrictions at December 31, 1978 amounts to approximately $337,000,000.

GIRARD COMPANY

Dividend Restrictions

Under the most restrictive terms of the various borrowing agreements outlined in Note 7, the Company covenants that it will not declare or pay dividends or make any distribution in respect to its common stock in excess of a cumulative amount prescribed under a formula contained in the indenture relating to the 8.95% Notes due September 1, 1997. The principal elements of that formula are $10 million plus, from January 1, 1977 forward, 75% of consolidated net income, plus the net proceeds from issuance of common stock and the conversion of convertible debt. The amount of future dividends which can be declared under these covenants is equal to the excess capacity under the formula of $22,567,000 as of December 31, 1978, plus the additional earnings and stock issuance and conversion accumulations thereafter.

Additionally, the payment, without requiring federal regulatory approval, of dividends by Girard Bank to the Company to meet the Company's dividend-paying requirements is limited under the Federal Reserve Act to the current year's net profits (as defined), plus the net profits retained during the two preceding years. Within this limitation, the Bank could, without requiring federal regulatory approval, declare dividends during 1979 amounting to $23,003,000 plus the Bank's net profits for 1979.

As a practical consideration, the Company's dividend payments, which currently amount to $9,250,357 per annum at the present regular quarterly dividend rate of $1.84 per annum, could not be increased near the current range of these expressed dividend restriction limitations without unduly restricting the Company's accumulation of capital support the conduct of its business (although the board of directors may declare and pay dividends out of accumulated profits at any time with any necessary approvals).

EXAMPLE Disclosures related to compensating balances (Rule 9-02, caption 1(b) and Rule 5-02)

MARYLAND NATIONAL CORPORATION
Funds Borrowed
(Excerpt from footnote)

Commercial paper is issued with maturities not to exceed 270 days. In connection with the commercial paper, the Corporation had lines of credit with various non-affiliated banks of $45,000,000 and $44,000,000 at December 31, 1978 and 1977, respectively. These financing arrangements require compensating balances generally at 10% of the lines of credit plus 10% of the amount borrowed. Compensating balances amounted to $4,500,000 and $3,364,000 at December 31, 1978 and 1977 respectively.

EXAMPLES Disclosures related to short term borrowing (Rule 9-02, caption 12)

J.P. MORGAN & CO. INCORPORATED

Data on short-term borrowings are shown in the following table:

	J.P. Morgan & Co. (consolidated); dollars in thousands		J.P.Morgan & Co. (parent); dollars in thousands	
	1978	1977	1978	1977
Federal funds purchased (day-to-day)				
Average balance	$1,260,000	$1,557,000	-	-
Maximum balance	2,936,000	2,766,000	-	-
Average interest rate				
During year	8.31%	5.47%	-	-
At year-end	10.97%	6.50	-	-
Securities sold under agreements to repurchase				
Average balance	$1,169,000	$1,593,000	$ 32,000	$ 17,000
Maximum balance	1,660,000	2,430,000	70,000	52,000
Average interest rate				
During year	7.48%	5.35%	7.21%	5.23%
At year-end	9.66	5.59	-	-
Commercial paper				
Average balance	$ 387,000	$ 250,000	$264,000	$154,000
Maximum balance	714,000	357,000	511,000	235,000
Average interest rate				
During year	8.32%	6.42%	8.37%	5.77%
At year-end	10.63	6.87	10.74	6.75
Other liabilities for borrowed money				
Federal funds purchased (terms)				
Average balance	$ 755,000	$ 286,000	-	-
Maximum balance	1,231,000	472,000	-	-
Average interest rate				
During year	8.16%	5.69%	-	-
At year-end	10.60	6.82	-	-
Other				
Average balance	$ 340,000	$ 156,000	-	-
Maximum balance	992,000	291,000	-	-
Average interest rate				
During year	7.13%	6.49%	-	-
At year-end	7.51	5.74		

The average balance in 1978 of securities sold by nonbank subsidiaries under agreements to repurchase was $68,569,000 and the maximum balance was $79,133,000. The average interest rate on these borrowings during the year was 9.27% and at the year-end as 9.13%. There were no borrowings of this type by nonbank subsidiaries in 1977.

Average interest rates during each year are computed by dividing total interest expense by the average amount borrowed. Original maturities of sales of securities under agreements to repurchase generally are not in excess of six months. Original maturities of commercial paper are not in excess of nine months. "Other liabilities for borrowed money," which include borrowings at offices in the U.S. and offices outside the U.S., generally have original maturities of one year or less.

REPUBLIC NEW YORK CORPORATION

Short term borrowings include federal funds purchased and securities sold under agreements to repurchase which mature within one business day and other borrowings which generally mature within twelve months.

The following table presents amounts which were included in the Consolidated Statements of Condition at December 31:

	1978	1977
	(In Thousands)	
Federal funds purchased and securities sold under agreements to repurchase	$210,096	$ 48,222
Other borrowings	20,253	6,972
	$230,349	$ 55,194

The following table is a summary related to aggregate short term borrowings for the two years ended December 31, 1978:

	1978	1977
	(Dollars in Thousands)	
Maximum amount outstanding at any month-end	$271,128	$105,515
Average amount outstanding	124,310	59,139
Weighted average interest rates:		
Federal funds purchased and securities sold under agreements to repurchase	7.52%	5.43%
Other borrowings	9.04%	7.98%
Total	7.70%	5.83%

APPENDIX I

Banks Included in the Survey

Following is a listing of commercial banks selected for inclusion in the survey listed in deposit rank order as of December 31, 1978.

Rank	Bank
1	Bank of America NT&SA, San Francisco
2	Citibank, N.A., New York
3	Chase Manhattan Bank NA, New York
4	Manufacturers Hanover Trust Company, New York
5	Morgan Guaranty Trust Company of New York
6	Chemical Bank, New York
7	Continental Illinois National Bank and Trust Company of Chicago
8	Bankers Trust Company, New York
9	First National Bank of Chicago
10	Security Pacific National Bank, Los Angeles
11	Wells Fargo Bank NA, San Francisco
12	Marine Midland Bank—New York
13	Crocker National Bank, San Francisco
14	United California Bank, Los Angeles
15	Irving Trust Company, New York
16	Mellon Bank NA, Pittsburgh
17	First National Bank of Boston
18	National Bank of Detroit
19	Bank of New York
20	Republic National Bank of Dallas
21	First Pennsylvania Bank NA, Philadelphia
22	Seattle-First National Bank
23	First National Bank in Dallas
24	Harris Trust and Savings Bank, Chicago
25	Union Bank, Los Angeles
26	First City National Bank of Houston
27	European-American Bank & Trust Company, New York
28	Texas Commerce Bank NA, Houston
29	Valley National Bank of Arizona, Phoenix
30	Northern Trust Company, Chicago
31	Philadelphia National Bank
32	Wachovia Bank and Trust Company, NA Winston-Salem
33	North Carolina National Bank, Charlotte
34	Cleveland Trust Company
35	First National Bank of Oregon, Portland
36	Pittsburgh National Bank
37	National Bank of North America, New York
38	Manufacturers National Bank of Detroit
39	United States National Bank of Oregon, Portland
40	Rainier National Bank, Seattle
41	Girard Bank, Philadelphia
42	Detroit Bank & Trust Company
43	Citizens and Southern National Bank, Atlanta
44	First National Bank of Arizona, Phoenix
45	California First Bank, San Francisco
46	Bank of Tokyo Trust Company, New York
47	Republic National Bank of New York
48	Bank of California NA, San Francisco
49	Fidelity Bank, Philadelphia
50	Lincoln First Bank of Rochester
51	Maryland National Bank, Baltimore
52	National City Bank, Cleveland
53	Hartford National Bank and Trust Company
54	Northwestern National Bank, Minneapolis
55	Riggs National Bank of Washington, D.C.
56	Equibank NA, Pittsburgh
57	First Wisconsin National Bank of Milwaukee

Rank	Bank
58	First Union National Bank, Charlotte
59	Virginia National Bank, Norfolk
60	First National Bank of Atlanta
61	Central National Bank of Cleveland
62	Connecticut Bank and Trust Company, Hartford
63	Lloyds Bank California, Los Angeles
64	Industrial National Bank, Providence, R.I.
65	Mercantile Trust Company, NA, St. Louis
66	Banco Popular de Puerto Rico, San Juan
67	First National Bank in Minneapolis
68	Citibank (New York State) NA, Buffalo
69	First National Bank in St. Louis
70	American National Bank and Trust Company of Chicago
71	American Security Bank, NA, Washington
72	American Fletcher National Bank, Indianapolis
73	Mercantile National Bank of Dallas
74	Provident National Bank, Philadelphia
75	Southeast First National Bank of Miami
76	Bank of Virginia, Richmond
77	First National Bank of St. Paul
78	New England Merchants National Bank, Boston
79	First & Merchants National Bank, Richmond
80	Shawmut Bank of Boston NA
81	Bank of Hawaii, Honolulu
82	Equitable Trust Company, Baltimore
83	Michigan National Bank, Lansing
84	First National State Bank of New Jersey, Newark
85	Indiana National Bank, Indianapolis
86	Bank of the Southwest NA, Houston
87	Michigan National Bank of Detroit
88	First National Bank of Maryland, Baltimore
89	Manufacturers and Traders Trust Company, Buffalo
90	Arizona Bank, Phoenix
91	American Bank and Trust Co. of Pa., Reading
92	Sumitomo Bank of California, San Francisco
93	Ohio National Bank of Columbus
94	First Security Bank of Utah, NA, Salt Lake City
95	First National Bank of Louisville
96	Idaho First National Bank, Boise
97	Northwestern Bank, North Wilkesboro, North Carolina
98	National Central Bank, Lancaster, Pennsylvania
99	Industrial Valley Bank and Trust Company, Philadelphia
100	State Street Bank and Trust Company, Boston
101	Whitney National Bank of New Orleans
102	First National Bank of Birmingham
103	Pacific National Bank of Washington, Seattle
104	Bank Leumi Trust Company of New York
105	United Jersey Bank, Hackensack
106	Continental Bank, Norristown, Pennsylvania
107	First National Bank of Denver
108	First Hawaiian Bank, Honolulu
109	Society National Bank of Cleveland
110	United States Trust Company of New York
111	Citizens Fidelity Bank & Trust Company, Louisville
112	Trust Company Bank, Atlanta
113	Merchants National Bank & Trust Company of Indianapolis
114	First National Bank of Memphis
115	United Bank of Denver, NA
116	First National Bank of Nevada, Reno
117	First-Citizens Bank & Trust Company, Raleigh
118	First National Bank and Trust Company of Oklahoma City
119	Midlantic National Bank, Newark
120	First American National Bank of Nashville
121	Suburban Trust Company, Hyattsville, Maryland
122	Commerce Union Bank, Nashville

Rank	Bank
123	J. Henry Schroeder Bank & Trust Co., New York
124	Peoples National Bank of Washington, Seattle
125	Zions First National Bank, Salt Lake City
126	South Carolina National Bank, Charleston
127	Rhode Island Hospital Trust National Bank, Providence
128	Old Kent Bank and Trust Company, Louisville
129	Deposit Guaranty National Bank, Jacksonville, Mississippi
130	Huntington National Bank of Columbus
131	Old Stone Bank, Providence
132	Third National Bank, Nashville
133	Fort Worth National Bank
134	City National Bank of Detroit
135	First National Bank of Jackson, Mississippi
136	First National Bank of Cincinnati
137	Banco de Ponce, Puerto Rico
138	Birmingham Trust National Bank, Alabama
139	Union Commerce Bank, Cleveland
140	Union National Bank of Pittsburgh
141	Liberty National Bank and Trust Company of Oklahoma City
142	First Security Bank of Idaho, NA, Boise
143	United Virginia Bank, Richmond
144	Wilmington Trust Company, Delaware
145	First National Bank of Fort Worth
146	City National Bank, Beverly Hills
147	Old National Bank of Washington, Spokane
148	New Jersey National Bank, Trenton
149	Union Trust Company of Maryland, Baltimore
150	Union Trust Company, New Haven
151	First National Exchange Bank of Virginia, Roanoke
152	Bank of the Commonwealth, Detroit
153	Houston National Bank
154	Colonial Bank & Trust Company, Waterbury, Connecticut
155	Citizens Commercial & Savings Bank, Flint, Michigan
156	Fidelity Union Trust Company, Newark
157	National Commercial Bank and Trust Company, Albany, New York
158	City National Bank & Trust Company, Columbus, Ohio
159	First Peoples National Bank of New Jersey
160	Central Trust Company, NA, Cincinnati
161	National Community Bank of New Jersey, Rutherford
162	Commerce Bank of Kansas City NA, Missouri
163	Allied Bank of Texas, Houston
164	Frost National Bank, San Antonio
165	Bank of Oklahoma NA, Tulsa
166	First National Bank and Trust Company of Tulsa
167	Commonwealth National Bank, Harrisburg, Pennsylvania
168	LaSalle National Bank, Chicago
169	Union Planters National Bank of Memphis
170	M&I Marshall & Ilsley Bank, Milwaukee
171	New Jersey Bank NA, Clifton
172	Fifth Third Bank, Cincinnati
173	First National Bank of Akron, Ohio
174	First Jersey National Bank, Jersey City
175	Hibernia National Bank in New Orleans
176	First National Bank of Allentown
177	Garden State National Bank, Paramus, New Jersey
178	First National Bank of Commerce, New Orleans
179	Winters National Bank and Trust Co., Dayton
180	National Bank of Washington, D.C.
181	Genesee Merchants Bank & Trust Co., Flint, Michigan
182	National State Bank, Elizabeth, New Jersey
183	Fulton National Bank of Atlanta
184	Long Island Trust Company, Garden City, New York
185	Citizens and Southern National Bank of South Carolina, Charleston
186	State Bank of Albany

Rank	Bank
187	Heritage Bank, NA, Cherry Hill, New Jersey
188	First National Bank of Kansas City, Missouri
189	First National Bank of New Jersey, Totowa
190	First American Bank of Virginia, Arlington
191	Albuquerque National Bank, New Mexico
192	Liberty National Bank & Trust Company, Louisville, Kentucky
193	Boatmen's National Bank of St. Louis
194	Toledo Trust Company, Ohio
195	United Missouri Bank of Kansas City, NA
196	Valley Bank of Nevada, Inc., Las Vegas
197	Central Penn National Bank, Philadelphia
198	First National Bank of South Carolina, Columbia
199	Northeastern Bank of Pennsylvania, Scranton
200	Bankers Trust of South Carolina, Columbia
202	Walker Bank and Trust Company, Salt Lake City
203	State National Bank of Connecticut
205	Oneida National Bank and Trust Company of Central New York
206	Central Bank of Alabama, NA, Decatur
207	Sun First National Bank, Orlando
208	National Bank of Commerce of San Antonio
209	Lincoln National Bank & Trust Company, Fort Wayne, Indiana
211	Connecticut National Bank, Bridgeport
212	Austin National Bank, Texas
213	Colorado National Bank, Denver
214	Omaha National Bank, Nebraska
216	Security Bank & Trust Co., Southgate, Michigan
217	First International Bank in Houston, NA
219	First Virginia Bank, Falls Church
220	Security Trust Company, Rochester, New York
225	National Bank of Commerce, Memphis, Tennessee

Rank	Bank
226	Louisiana National Bank of Baton Rouge
227	Central National Bank in Chicago
230	Bank of New Jersey, Camden
231	Southeast National Bank of Pennsylvania, Chester
232	Worchester County National Bank, Massachusetts
234	United Virginia Bank/National, Vienna
238	Manufacturers Bank, Los Angeles
239	Citytrust, Bridgeport, Connecticut
240	Marine National Exchange Bank of Milwaukee, Wisconsin
241	Merchants National Bank, Mobile, Alabama
242	Union First National Bank of Washington
243	Flagship First National Bank of Miami Beach
245	Central Bank of Birmingham, Alabama
247	American National Bank and Trust Company, Chattanooga, Tennessee
248	First Valley Bank, Lansford, Pennsylvania
259	El Paso National Bank, Texas
261	Capital National Bank, Austin
263	Landmark First National Bank of Fort Lauderdale
271	National Bank of South Dakota, Sioux Falls
273	BayBank Norfolk County Trust Company, Denham, Massachusetts
278	Community National Bank, Pontiac, Michigan
280	First National Bank of Florida, Tampa
283	First National Bank & Trust Company of Michigan, Kalamazoo
284	Merchants National Bank of Allentown, Pennsylvania
285	United American Bank NA, Knoxville
287	Bank of Idaho, NA, Boise
289	Fidelity American Bank, NA, Lynchburg, Virginia
294	Fort Wayne National Bank, Indiana
297	First Alabama Bank of Montgomery NA
298	First Bank, N.A. La Crosse, Wisconsin
301	Heritage Bank/North, N.A., Monroe Township, New Jersey

Rank	Bank
307	Worthen Bank & Trust Company NA, Little Rock, Arkansas
313	Mercantile-Safe Deposit & Trust Company, Baltimore, Maryland
320	State National Bank of El Paso
324	Farmers Bank of the State of Delaware
335	Continental National Bank, Fort Worth
340	Second National Bank of Saginaw
345	Century Bank of Broward
349	Florida National Bank of Miami
356	Central National Bank, Richmond, Virginia
360	Florida First National Bank of Jacksonville
371	Pan American Bank of Miami
386	Atlantic National Bank of Jacksonville, Florida
397	Central Trust Company of North Eastern Ohio, N.A., Canton
399	Landmark Union Trust Bank of St. Petersburg, NA
402	American Bank and Trust Company, Lansing, Michigan
403	First Mississippi National Bank, Hattiesburg, Mississippi
408	Exchange National Bank of Tampa
412	Merchants National Bank, Cedar Rapids, Iowa
415	Fannin Bank, Houston
416	South Shore Bank, Quincy, Massachusetts
429	Barnett Bank of Miami, NA
433	Waccamaw Bank and Trust Company Whiteville, North Carolina
439	Barnett Bank of Jacksonville NA, Florida
455	Sun Bank of Miami
460	Bank of Commerce, New York
465	Peoples National Bank & Trust Company of Bay City
480	Ann Arbor Bank & Trust Company, Michigan
488	Prospect Park National Bank, Wayne, New Jersey

APPENDIX II

Survey Company Lists

Following is an alphabetical listing of the commercial banks (or holding companies with commercia banks selected for the survey) whose 1978 annual reports to shareholders were included in this survey. Those companies whose names have an asterisk (*) following them were also included in the survey of companies filing with the Securities and Exchange Commission on Form 10-K. Pages upon which excerpts from the company's annual reports may be found are indicated following the name.

Alabama Bancorporation, 172
Allied Bancshares, Inc.
American Bank & Trust Co. of Pa., 111
American Fletcher Corporation
American National Bank and Trust Company of Chicago, 174
American Security Corporation, 147
Ancorp Bancshares Inc.
Arizona Bank, 100, 154
Atlantic Bancorporation, 70, 167, 176
Austin Bancshares Corporation, 34, 91

Bancal Tri-State Corporation*, 80, 125, 173
BancOhio Corporation*, 155
Banco de Ponce
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Banco Popular de Puerto Rico, 112
Bancshares of New Jersey, 159
Bank Leumi Trust Company
Banks of Iowa, Inc., 95, 111, 153, 176
Bank of New York Company, Inc.*, 38, 205, 213
Bank of the Commonwealth, 38, 80, 82, 122, 158
Bank of Tokyo Trust Company, 100
Bank of Virginia Company, 65
BankAmerica Corporation*, 31, 47, 102, 272
Bankers Trust New York Corporation*, 30, 124, 183, 260
Bankers Trust of South Carolina, 100, 162
Barnett Banks of Florida, Inc., 81, 95, 121
BayBanks, Inc., 162
Boatmen's Bancshares, Inc., 186

California First Bank, 160, 175
CBT Corporation, 153
Central Bancorporation, Inc.
Central Bancshares of the South, Inc., 61, 62
Central National Chicago Corporation
Central Penn National Corp., 121, 208
Centran Corporation, 57
Century Banks, Inc., 58, 126
Charter New York Corporation*, 159, 266
Chase Manhattan Corporation*, 79, 137
Chemical New York Corporation*, 40, 47, 90, 153, 195, 220, 225
Citicorp*, 19, 29, 31, 39, 54, 196, 242
Citizens and Southern Corporation, 17
Citizens and Southern National Bank, 116, 151
Citizens Commercial & Savings Bank, 61, 62
Citizens Fidelity Corporation, 103
City National Corporation, 176
CityTrust Bancorp, 108
CleveTrust Corporation*, 29
Colonial Bancorp, Inc.
Colorado National Bankshares, Inc.
Commerce Bancshares, Inc., 61
Commonwealth National Bank, 90
Commonwealth Banks, Inc., 97, 116, 130
Community National Bank, 40
Connecticut National Bank, 91
Continental Bank, 100
Continental Illinois Corporation*, 47, 251
Crocker National Corporation*, 135
Cullen/Frost Bankers, Inc., 56

Deposit Guaranty Corp., 157
Detroitbank Corporation*, 64, 122
Dominion Bankshares Corporation, 58, 175

Equimark Corporation, 33, 42, 100, 111, 188
Equitable Bancorporation, 151
European American Bancorp., 174
Exchange Bancorporation, Inc., 34, 99, 168

Fannin Bank
Farmers & Merchants Corporation
Farmers Bank of the State of Delaware

Fidelcor, Inc., 27, 80, 82, 173, 201
Fidelity American Bankshares, Inc.
Fidelity Union Bancorporation, 47, 61
Fifth Third Bancorp, 79
Financial General Bankshares, Inc., 114, 126, 159, 196
First Alabama Bancshares, Inc.
First American Bank Corporation, 64
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1979 Financial Reporting

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1979 Financial Reporting Trends

Life Insurance

A survey of insurance industry reporting practices
as disclosed in 1978 published annual reports.

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GAAP — Deferred Taxes — Stock Life Insurance Companies
Federal Income Taxes — Life Insurance Companies
Property/Casualty Insurance Loss Reserving Practices

Foreword

The 1979 edition of *Life Insurance Financial Reporting Trends* represents a supplement to prior editions. Accordingly, the content of this edition is limited, to a large extent, to matters concerned with reporting practices which were required initially in 1978 annual reports or have evolved in recent years. The reader should refer to the 1977 edition of *Life Insurance Financial Reporting Trends* for explanatory narrative, tabular summarization of prevailing practices, and examples of disclosures of the numerous financial reporting areas not covered in this edition.

The survey covers 200 stock life insurance companies, 45 mutual life insurance companies, and 5 fraternal benefit societies. Throughout this edition, the mutual life insurance companies and fraternal benefit societies have been combined under the caption "mutual companies" as a matter of convenience. Also, the phraseology utilized in this edition is that more commonly associated with mutual life insurance companies rather than fraternal benefit societies.

We wish to thank the 250 life insurance companies that furnished copies of their published 1978 annual reports to shareholders or policyholders and the 100 companies that furnished copies of their proxy statements issued in connection with annual shareholders meetings for use in this edition of *Life Insurance Financial Reporting Trends*. The list of companies covered by the survey ("Appendix I") includes a cross-reference showing the pages which contain excerpts, if any, from each company's annual report or proxy statement.

The results of a similar survey of annual reports issued by fire and casualty insurance companies for the year ended December 31, 1978 are included in the 1979 edition of *Fire and Casualty Insurance Financial Reporting Trends*.

Included in Section A of *Life Insurance Financial Reporting Trends* are brief comments as to reporting and/or accounting requirements which only recently became effective or as presently under study. Ernst & Whinney publishes a *Financial Reporting Developments* series which provides a thorough analysis of emerging accounting and reporting topics.

Additional copies of the 1979 and prior editions of *Life Insurance Financial Reporting Trends* and copies of the *Financial Reporting Developments* series may be obtained from the Ernst & Whinney office which serves you or by writing James F. Zid, Partner, Ernst & Whinney, 1300 Union Commerce Building, Cleveland, Ohio 44115.

Ernst & Whinney Insurance Industry Committee
October, 1979

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Section A

General

Introduction

Purpose of survey Like previous editions of *Life Insurance Financial Reporting Trends,* this year's edition is a source of information on current life insurance financial reporting practices as disclosed in published 1978 annual reports to stockholders and policyholders. The survey is descriptive, not evaluative, and makes no recommendations on the form and content of annual reports.

Life Insurance Financial Reporting Trends confines itself to reporting practices and problems unique to the life insurance industry. Those not unique to the industry are thoroughly covered by *Accounting Trends and Techniques,* an annual survey of the annual reports of industrial and commercial corporations made by the American Institute of CPAs.

Readers wishing to trace the historical development of the treatment of a particular item are directed to the 1972 through 1978 annual editions of *Life Insurance Financial Reporting Trends,* the 1970 and 1971 editions of *Insurance Financial Reporting Trends,*and the 1969 edition, which is entitled *Survey of Life Insurance Company Reports to Stockholders and Policyholders.*

Survey companies The reports of 200 stock life insurance companies and 50 mutual life insurance companies have been included in the survey.

Selection of the companies was based generally on a listing of the country's largest life insurance companies compiled from information in *Best's Insurance Reports (Life-Health).* With a few exceptions, they are the country's largest life insurance companies. The survey companies and their consolidated subsidiaries generally represent between 85% and 95% of the industry in terms of such statutory financial data as insurance in force, new business, admitted assets, life insurance reserves, capital surplus and contingent funds, and premium income.

Survey methods The 1978 annual report of the survey companies was coded for various report characteristics and the data were tabulated electronically into the tables included in this book. The reports were analyzed in terms of life insurance company reporting practices. If a company is a life insurance company reporting as such, the analysis [illegible] straightforward. If a company is a holding company which publishes separate statements of the life insurance subsidiaries, the separate statements were analyzed. If a company is a holding company publishing only consolidated statements, the life insurance reporting features were "extracted" from the consolidated statments. Tables indicate the frequency with which the survey companies followed different practices with respect to the item under discussion.

The following table summarizes the companies surveyed:

	Audited	Unaudited	Total
Mutual Companies	31	19	50
Stock Companies:			
Presenting financial statements in accordance with generally accepted accounting principles	175	—	175
Presenting financial statements in accordance with statutory accounting practices.	9	14	23
No financial statements presented	—	2	2
	184	16	200

The distinction between audited and unaudited financial statements is based on the annual reports received. If the financial statements were not accompanied by an accountants' report, the assumption was made that the financial statements have not been audited.

Limitations of survey data Financial reporting practices of life insurance companies and "congenerics" dominated by life insurance companies are diverse and do not readily lend themselves to precise classification. As a result, assumptions, conventions, and interpretations were necessary to reduce the data to meaningful summaries.

Although the data and examples in the survey have been thoroughly checked, no responsibility is assumed for their reliability.

Examples were chosen to illustrate specific accounting or disclosure practices. All examples have been reduced to a uniform format. The examples do not purport to reproduce precisely what was contained in the original report and since they have been taken out of context, they may not represent appropriate disclosure from the standpoint of the financial statements taken as a whole.

Future reporting and accounting developments

The Financial Accounting Standards Board (FASB) and the Securities and Exchange Commission (SEC) have imposed several reporting and accounting requirements for 1979 financial statements and have proposed several additional requirements. If the survey companies complied with these requirements in their 1978 financial statements, such compliance is discussed and illustrated elsewhere in this text. For example, business segments are discussed in Section D, the Foreign Corrupt Practices Act and the SEC proposal for public reporting on internal control are discussed in Section E, and changes to proxy statements are discussed in Section F.

Other recent developments that can be expected to significantly affect future financial statements of life and health insurance companies include the following:

Accounting for Investments of Stock Life Insurance Companies Consistency in accounting for investments is the goal of this AICPA Statement of Position — consistency among stock life insurance companies, and with the property and liability insurance companies. Thus, stock life companies are advised to carry common and nonredeemable preferred stock at market, not the lower of cost or market. Bonds and mortgages generally will continue to be carried at amortized cost, and investment real estate at depreciated cost.

Realized investment gains and losses, after taxes, are to be separately classified in the income statement below operating income. Unrealized gains and losses go directly into shareholders' equity, net of applicable taxes. The Statement calls for classifying real estate either as an investment or as property, plant, and equipment, depending on its predominant use. Insurers previously were inclined to include it in investments regardless of use. The practice of imputing investment income and an equal amount of rent expense on property used in the business no longer would be allowed for GAAP purposes.

The Statement is effective for annual and interim periods ending after July 1, 1979; accounting changes should be made retroactively with prior period financial statements restated.

Reconsideration of Foreign Currency Translation In 1978, the FASB solicited written comments from financial statement preparers, auditors, users, and others about their experiences in applying the first twelve FASB Statements and in using the resulting information. As expected, the majority of comment letters criticized Statement No. 8 on foreign currency translation. The FASB held a meeting in January 1979 with selected parties whose comment letters proposed specific alternatives to various aspects of that Statement.

The FASB has announced it expects to change Statement No. 8 on foreign currency translation. According to its latest thinking, financial statements of foreign subsidiaries would be translated using the rate of exchange existing at each balance sheet date (current rate method) — which is quite different from the present monetary/nonmonetary approach. While popular in the United Kingdom and other parts of the world, the current rate method is essentially untried in the U.S. and was not one of the GAAP alternatives prior to Statement No. 8.

Probably a more important change, in response to the criticism that Statement No. 8 can result in widely fluctuating earnings, is the FASB's intention to move the translation adjustments outside of "operating income." The following classifications are now favored by the FASB:

> As a special item near the end of the income statement, somewhat like an extraordinary item, or
>
> As a direct adjustment to stockholders' equity, similar to an allowance for declines in value below cost of long-term investments in marketable equity securities.

Foreign currency transactions of U.S. companies (e.g., a receivable denominated in French francs) would still follow the monetary/nomonetary translation method. Any adjustments relating to these transactions would continue to be included in operating income.

The FASB still has a number of details to work out and other issues to address (such as the possibility of exceptions from the current rate method for certain items, treatment of hedging transactions, and disclosures) before issuing a formal proposal to revise Statement No. 8.

Conceptual Framework for Accounting and Reporting The conceptual framework project has been described as providing a constitution for accounting. It will result in basic documents, called Statements of Financial Accounting Concepts, that will provide support and guidance for developing and applying financial accounting standards. The initial discussion memorandum contemplated four phases of the conceptual framework project:

> Objectives of financial reporting by business enterprises — identify the purposes, users, and general nature of general purpose financial reporting.
>
> Elements of financial statements — develop definitions of assets, liabilities, etc.
>
> Qualitative characteristics of financial information — identify and clarify the characteristics (e.g., reliability, relevance, timeliness) that should govern the development and application of accounting standards. Materiality, which was previously a separate agenda topic, will also be considered here.
>
> Measure of financial statement elements — select the basis for measuring assets, liabilities, etc. (e.g., historical cost, current cost).

In November 1978 the FASB issued Statement of Financial Accounting Concepts No. 1 on "Objectives of Financial Reporting by Business Enterprises." The major difference between the final Statement and the December 1977 exposure draft was that the elements section (i.e., definition of assets and liabilities, owners' equity, revenues, expenses, gains, losses, and earnings) of the draft was not included in the Statement. Due to the generally negative public reaction to the elements proposals, the FASB will expose another draft for further comment later in 1979. Measurement proposals are covered below. Qualitative characteristics should be exposed for comment during the third quarter of 1979. The FASB also has identified four more phases of the project described below.

Earnings report — re-examine the income statement and determine the most appropriate method of presenting earnings information. The old debate between the "current operating" and "all inclusive" theories of income statement presentation that was settled by APB Opinion No. 9 will be revived. A discussion memorandum is scheduled for the third quarter of 1979.

Financial reporting/financial statements — identify what types of information should be disclosed outside financial statements and also determine whether it is meaningful for small or closely held companies to make all the financial statement disclosures required by GAAP. A position paper, scheduled for exposure in the third quarter of 1979, will propose criteria for making decisions on these two issues.

Funds flow and liquidity reporting — establish concepts and standards for reporting funds flow and liquidity, including a reexamination of APB Opinion No. 19, "Reporting Changes in Financial Position."

Accounting recognition — develop criteria for determining when to recognize elements of financial statements (e.g., when does an obligation become a liability).

FASB Statement No. 33 *Financial Reporting and Changing Prices,* issued in October 1979 is effective for fiscal years ended on or after December 25, 1979. However, current cost information for fiscal years ended before December 25, 1980 may be presented in the first annual report for a fiscal year ended on or after December 25, 1980. The Statement applies to public companies having $1 billion in assets or $125 million of inventories and gross properties (including investment real estate). However, all companies are encouraged to make the required disclosures.

The Statement establishes standards for reporting the effects of "general inflation" and changes in the prices of certain specific types of assets. General inflation is described as a rise in the general level of prices or a decline in the general purchasing power of the dollar. According to the Board, users of financial statements need information about measurements that are made in units having the same general purchasing power because conventional financial statements make no direct allowance for the variability of the monetary unit of measure. Thus the statement requires supplementary disclosure using "constant dollar accounting" and the purchasing power gain or loss on net monetary items.

Although special problems arise in the application of the provisions of the Statement to financial institutions such as insurance companies, the FASB has concluded that the disclosure requirements for those institutions should be similar to the ones required for commercial and industrial companies.

While the Board agreed with an Insurance Task Group that it had formed to study implementation and measurement problems for insurance companies that historical cost/constant dollar and current cost adjustments would often be immaterial for insurance companies, it concluded that no special provisions or exemptions were needed to deal with their particular situation. The Board provided, however, that the application of Statement No. 33 is qualified by the more general provision that the requirements for disclosure need not be applied to immaterial items. Therefore, historical cost/constant dollar and current cost adjustments or disclosures need not be presented if they have no material effect on income from continuing operations.

The computation of the purchasing power gain or loss on net monetary items requires a classification of assets and liabilities as either monetary or non-monetary items. For insurance companies, the difficulties in classifying certain assets and liabilities as monetary or non-monetary (i.e., reserves, claim liabilities, deferred policy acquisition costs and unearned premiums) is more complex. The Board, in disagreeing with the recommendations of the Insurnce Task Group to classify all assets and liabilities as monetary classified the following insurance company assets and liabilities as non-monetary:

Common stocks not accounted for on the equity method

Convertible preferred stock or bonds if the market values of the securities are determined primarily as a stock

Equity investments in unconsolidated subsidiaries or other investees

Goodwill

Other intangible assets and deferred charges

Home office and agency buildings, improvements and equipment

Investment real estate

Property/casualty deferred policy acquisition costs

Property/casualty unearned premiums

The reasoning furnished by the Board that property/casualty unearned premiums were non-monetary was that they were principally obligations to furnish insurance coverage and the dollar amount of payments to be made under that coverage might vary materially due to changes in specific prices. Deferred policy acquisition costs were considered related to the unearned premium reserves and consequently also considered to be non-monetary.

Insurance companies are also required to present a five-year summary of selected financial data to aid users in assessing trends. In addition to the required current year historical cost/constant dollar and current cost information previously discussed, this summary must include the following expressed in constant dollars:

Net assets at year-end. If material historical cost and current cost/constant dollar net asset amounts would also be required (net assets reported in the financial statements adjusted for the revised amounts of inventories and properties — including income producing properties).

Per share amounts of income from continuing operations. Again, if material historical cost and current cost/constant dollar computations would be required.

Net revenues

Cash dividends per share

Market price per share at year-end

Average consumer price index

Only revenues, dividends, market price and consumer price index disclosures are required to be reported for years before 1979.

Ernst & Whinney has prepared a publication (E&W No. 39111) to assist companies in complying with the general disclosure requirements of the Statement. In addition, we plan to provide a publication which contains a more thorough analysis of the Statement as it relates to insurance companies in the near future.

Interim Financial Accounting and Reporting "Quarterly earnings for most companies," says the FASB, "would be changed under any of the alternatives considered in this discussion memorandum." The memorandum is part of an FASB project to make quarterly accounting and reporting more uniform and thus more useful and credible to users.

The FASB's analysis evaluated existing GAAP, such as APB Opinion No. 28, and inquired into the needs of quarterly report users. It covered these broad areas:

> Conceptual: Whether the objectives, uses, and elements of interim reports should be the same as those of annual reports.
>
> Disclosure: What financial information should be included in quarterly reports.
>
> Applicability: Whether some companies should be exempted, and if so, which ones.
>
> Measurement: Which accounting approach should be used to provide uniformity among enterprises — the "integral," the "discrete," or a combination of the two.

The key question is how annual expenses should be charged to interim periods. Under the "integral" approach emphasized in APB Opinion No. 28, each interim period in a fiscal year is assigned a proportionate amount of estimated annual expenses based on sales volume or some other activity basis. By contrast, under the "discrete" approach each part of a year is considered an independent reporting period. Therefore, annual expenses would be recognized as incurred, applying the same principles as for annual reports.

A third possibility, the "combination view," would establish criteria for applying the integral approach to some annual expenses and the discrete approach to others. For example, specific rules might call for income tax expense to be allocated based on the expected annual rate and major repairs charged to expenses as incurred.

This project has been deferred pending further progress on the conceptual framework project.

Guidelines and Safe Harbor for Forecasts The SEC has issued guidelines to encourage companies to issue financial forecasts. The guides are very similar to those proposed two years ago, and they apply to all public forecasts, whether included in an SEC filing such as Form 10-K or a registration statement, or simply released to the press. Issued later was a "safe harbor" rule to limit a company's liability in case a projection made in good faith and prepared on a reasonable basis turns out to be inaccurate.

What information should be given in forecasts is not specified, but the SEC suggests that revenue, net income, and per-share amounts usually would be the minimum. There is also a warning against "selective disclosure" which can be misleading; an example would be forecasting greatly increased revenues without mentioning net income. The period forecasted is up to management.

The guides encourage but do not require disclosing assumptions or subsequently comparing actual results with those forecasted. Registrants have a duty to update forecasts should there be major changes and investors are continuing to rely on the projections. Also, a company may stop publishing forecasts without giving any reason, but must have some reason to start up again.

Third-party review — by a CPA, for instance — is permitted but not required. If referred to in an SEC filing, the extent of review and the reviewer's qualifications and relationship to the company should be mentioned.

The safe harbor rules differ somewhat from those originally proposed, particularly the burden of proof; rather than requiring a company to prove that a projection had a reasonable basis and was disclosed in good faith, the SEC decided it should be up to the party claiming injury to prove the opposite. A second change is the explicit inclusion of management's plans and objectives and other statements of future economic performance, such as in the discussion of the summary of earnings or quarterly statements, to encourage companies to project other "soft" information. Also, third parties who review and report on projections are protected by the rules.

Redeemable Preferred Stock Redeemable preferred stocks are an increasingly popular form of financing (e.g., in purchase business combinations) because they add to a company's equity, not its debt. However, the SEC will require special treatment for them on the balance sheet, which it already has requested in certain companies' filings. The Commission is satisfied to leave to the FASB the question of whether this stock is a liability, but it wants to emphasize that the stock does create definite cash payment requirements.

Accounting Series Release No. 268, which is effective for financial statement periods ending after September 14, 1979, requires the following categories in the equity section of a balance sheet: redeemable preferred stock — stock which must be redeemed or is redeemable at the option of the holder; non-redeemable preferred stock; common stock; and all other stockholders' equity accounts. Redeemable preferred stock cannot be included under the general title of "stockholders' equity" nor can amounts related to it be included in total stockholders' equity. In addition to the usual disclosures (e.g., general description of issue, dividend rate, etc.) a note to the financial statements would include any changes in the amounts outstanding, the total redemption for each of the next five years, and the treatment of the difference between carrying value and redemption amount.

Business Combinations and Purchased Intangibles An August 1978 discussion memorandum is the first step in the Board's reconsideration of APB Opinion No. 16, "Business Combinations," and Opinion No. 17, "Intangible Assets." It offers no conclusions, but lists 38 issues and alternative solutions. There are ten appendices which expand on several of the issues and describe the results of research done by the FASB staff and others.

Matters covered include when or if the pooling of interests and purchase methods are to be used. Also outlined are the accounting for identifiable assets and liabilities, both tangible and intangible, in a combined enterprise's financial statements, accounting for goodwill, and determining and allocating the aggregate cost if a new accounting basis is adopted.

For a more complete discussion of these and other emerging accounting and reporting issues, refer to the Ernst & Whinney *Financial Reporting Developments* series of pamphlets which are available from the Ernst & Whinney executive serving you.

Section B

Information Included in Annual Reports

Many companies disclose significant financial data in the executive message, additional text, tabular presentations and charts and graphs. This section discusses the types of financial information included in the survey company annual reports to shareholders and policyholders. Some of the information disclosed by the survey companies in their annual reports was a result of pronouncements by the FASB and/or its predecessor, the Accounting Principles Board. Other information was disclosed in compliance with the requirements of the SEC. However, much of the disclosure appeared to be completely voluntary.

Information presented in annual reports

Figures B-1 and B-2 summarize the percentage of mutual and stock companies, respectively, presenting selected information in their 1978 and 1977 annual reports.

Figure B-1. Information Presented in Annual Reports of Mutual Companies

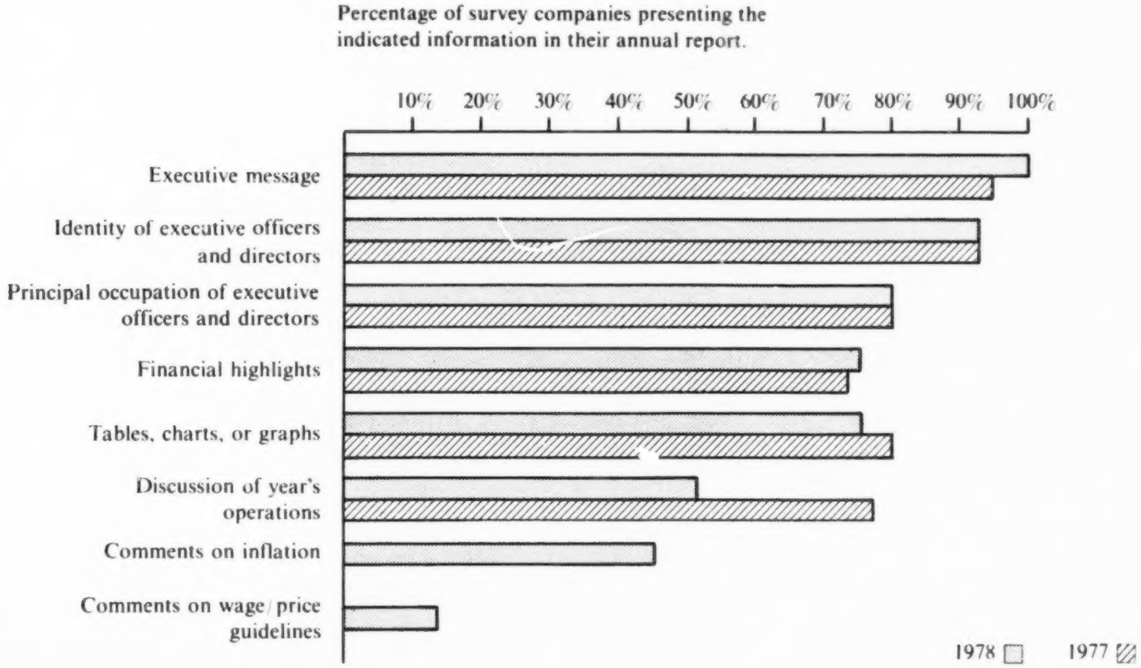
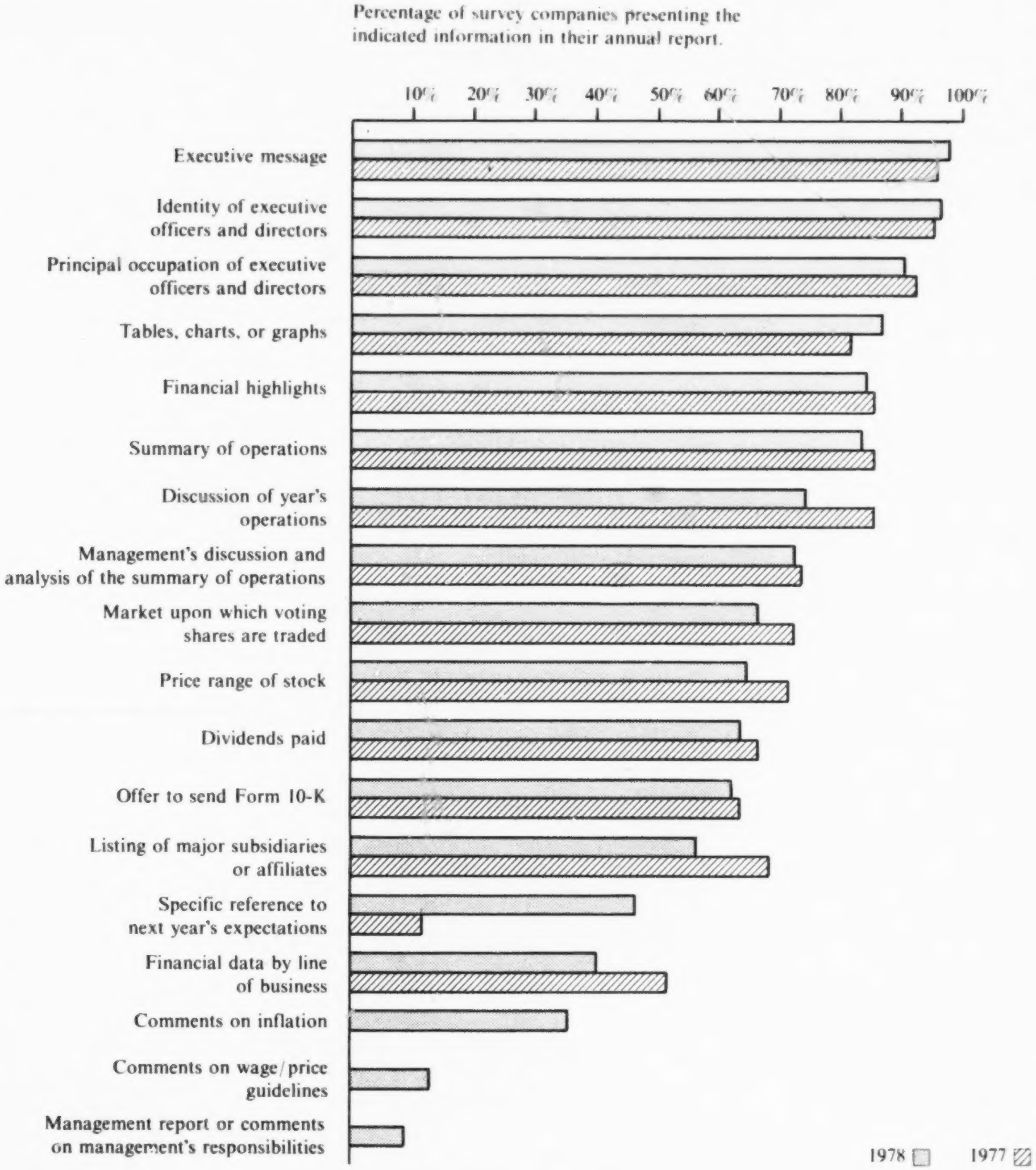


Figure B-2. Information Presented in Annual Reports of Stock Companies



Accountants' reports

Of the 250 life insurance companies covered by this survey, the financial statements of 215, or 86% of the total, were accompanied by an accountants' report. The number and percentage of audited reports is summarized as follows:

	Number of Survey Reports With Accountants' Reports		Percentage of Total Companies	
	1978	1977	1978	1977
Stock Companies	184	180	92	90
Mutual Companies	31	33	62	66

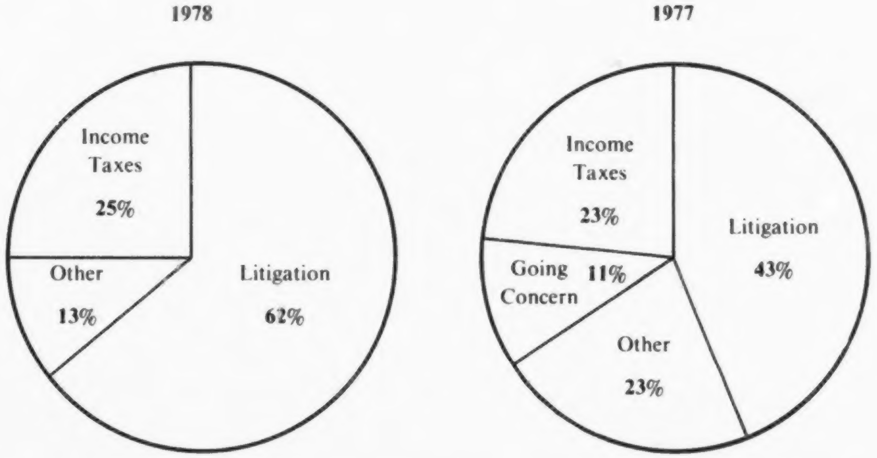
Reports that contained an accountant's opinion which was subject to significant uncertainties are outlined below.

Figure B-3. Uncertainties Disclosed in Qualified Accountants' Reports

	Stock Companies		Mutual Companies	
	1978	1977	1978	1977
Audited reports in which accountants' report was:				
Subject to an uncertainty	4%	4%	-%	-%
Not subject to an uncertainty	96	96	100	100
	100%	100%	100%	100%

Figure B-3 sets forth the frequency with which uncertainties were disclosed in the accountants' reports containing "subject to" qualifications.

Table B-1. Accountants' Reports — Significant Uncertainties



EXAMPLES Topics in executive messages or text portion of annual report

AMERICAN FAMILY CORPORATION

1978 marked the 14th consecutive year in which American Family's total income, operating earnings, and operating earnings per share increased to new record levels. This was achieved despite unrealized foreign currency translation "paper losses" of $3.2 million, or 30 cents per share, resulting from depreciation of the dollar against the yen. It is ironic that the more successful our operations in Japan, the greater bookkeeping penalty we suffer under present accounting standards. The Financial Accounting Standards Board currently has its Statement No. 8 (FASB-8) on foreign currency translation under study, and has indicated that changes will be forthcoming. We are hopeful for a more realistic interpretation which will enable us to reflect our true earnings in Japan and other foreign countries.

CONNECTICUT MUTUAL LIFE INSURANCE COMPANY

In 1974 Connecticut Mutual's functions as a corporate citizen were given formal recognition by establishment of the Committee on Corporate Responsibility and Public Issues of the Board of Directors. In 1978 this committee was given the staff support of a Department of Corporate Responsibility charged with a wide range of administrative functions. These include responsibility for coordinating the process through which the Company votes on proxy issues, monitoring the Company's affirmative action and minority purchasing programs, recommending corporate contributions, and initiating and processing social purpose investments. Thus, the greatest impact of the CSR function comes through socially responsible activities formalized as part of day to day business operations.

HOME BENEFICIAL CORPORATION

Recent charges made against the Home Service insurance industry, ranging from accusations of disproportionate profits earned from the sale of Industrial insurance to taking advantage of the poor by selling them too many policies at too high a premium, are simply not true. When all factors are considered, Industrial insurance written today is not more profitable than any other type of individual life insurance sold. There continues to be a definite established need for small life insurance policies with home service and we will continue to meet that need. We are constantly policing ourselves to improve the service to our policyholders, to improve the product we sell, and to eliminate the possibility of abuses. In our competitive battle for the security dollar, our primary advantage is our agency force. The agency force provides personal service to buyers in their homes, an advantage which no other source of security products can boast. Life Insurance is still a product that you sell and the best way to sell it is in person in the buyer's home and nothing provides more benefits to the buyer than a personal interview with a competent agent. It is our opinion, that the various State Insurance Departments that regulate our industry recognize this fact, and in cooperation with each other, the state regulatory agencies and the companies can correct whatever abuses may exist.

Our Company has always been dedicated to providing life insurance protection which meets the needs of our policyholders at the lowest possible price for the protection provided and we will continue to do so. As an example, the Company introduced on January 1, 1979 a new line of Ordinary policies which enables a policyholder to pay his premiums on a weekly basis but gives him the right to change his mode of payment to monthly, quarterly, semi-annually or annually. At the same time that we introduced this new line, we eliminated certain plans of Industrial insurance which we felt were outmoded or were no longer in the best interest of the consumer. All of our new Industrial policies now have a 10 day free look. We are convinced that our Home Service life insurance serves a real need for millions of Americans and the regular collection of premiums fits best into their "pay as you go" life style. It is an important part of our business and we believe it will continue to grow, but as you can see from our sales figures, our regular Ordinary is our fastest growing line of business.

REPUBLIC FINANCIAL SERVICES, INC.

There has been much study about the possibility of repealing or modifying the McCarran-Ferguson Act. The overall effect would be to move the regulation of the insurance industry from state control to federal control, but more than likely, it would establish a new layer of supervision and a dual regulatory effort.

McCarran-Ferguson is not an immunity from anti-trust laws; it merely grants immunity to the activities in the "business of insurance" and only if that business is adequately regulated by state laws. When Congress enacted the McCarran-Ferguson Act it considered the obvious conflict between the power of the federal government and the power of the state government and resolved that conflict in an orderly fashion.

It is our view that any modification will increase the size of the federal bureaucracy to assume some of the functions now being performed adequately by state governments, and it will add a new structure of regulation. In addition, it will usurp the premium tax source of income, and it will constitute further federal encroachment of state powers.

We do not foresee immediate repeal or modification, but we are concerned with the federal government's activities in this area, and we will continue to watch these developments.

CONTINENTAL GROUP, INC.

In December, we notified President Carter that we would take all necessary and appropriate steps to conform to the voluntary wage and price guidelines. Though we believe that curtailment of inflation depends primarily on government discipline in fiscal and monetary policy, and on government policies leading to balance in international trade, wage and price restraint is an important factor in reducing inflation. Continental will act as a responsible corporate citizen as this major national problem is addressed.

A task force has been established to administer our plans to meet the President's guidelines, and to monitor our performance. As we now see it, Continental can meet its 1979 objectives within the framework of the voluntary guidelines.

FIRST FARWEST CORPORATION

We continue in our belief that any future national health insurance program in the United States must depend on the inherent strengths of the private health insurance industry in order to be successful. Access by every American to adequate health care at a reasonable cost is a goal which should be realized. Those who would risk destroying America's vital health insurance industry are doing the country a disservice. Federalized health insurance programs structured like Social Security would waste national resources and reduce the quality of health care for all Americans.

LIBERTY NATIONAL LIFE INSURANCE COMPANY

In recent months the home service method of marketing life insurance and in particular the sale of industrial life insurance, has come under attack from various sources. Much of the attack has been unfair and uninformed. There is no way to speculate as to the ultimate effect of this attack on our business. The policies that we sell meet very real needs, and in our opinion our products and marketing system are effective and cost efficient. It is obvious that small policies with premiums collected on a weekly or monthly basis are more expensive than larger policies with premiums paid less frequently, but no one has yet suggested how better to meet the insurance needs of the low and lower middle income segments of the population.

LINCOLN NATIONAL CORPORATION

During 1979, Lincoln National Life will be improving its life insurance products. The most significant new program is a series of premium discounts for nonsmokers and for individuals who have an especially favorable health profile. An individual who has not smoked cigarettes for a year or more will be eligible for a reduced premium on four of our most popular permanent life insurance plans. We expect that about two-thirds of all insurance applicants for these plans will qualify for this discount. In addition, if the non-smoker meets certain other standards relating to blood pressure and cholesterol and purchases $100,000 or more of life insurance, he or she qualifies for a second level of premium discounts. We expect that about a third of those who qualify for the non-smoker discount and purchase $100,000 or more of insurance will also qualify for the additional discount.

TRAVELERS CORPORATION

Inflation is a particularly difficult challenge because it forces insurance costs up beyond what some of our customers can afford and generates resistance to needed rate increases. It does increase the need for insurance protection but depreciates the value of the benefit.

We support the objectives of President Carter's wage-price guidelines. In the long run, insurance rate increases will moderate only if the program is successful in reducing the rate of inflation for health care, automobile parts, labor costs and other components of insurance claims. We are encouraged by the attention being focused on reducing the cost of government, including the cost of regulation, and on increasing productivity by stimulating greater investment in new plant and equipment.

NEW ENGLAND MUTUAL LIFE INSURANCE COMPANY

The introduction in late 1978 of the Carter Administration's wage and price guidelines drew the nation's attention once again to the fact that efforts to reduce inflation call for fiscal restraint by all segments of society-government, labor, businesses, and individuals. New England Life faced this need for corporate restraint head-on in 1978 by reducing its operating expense ratio to income, despite mounting pressure from rising costs. We have also planned reductions in our 1979 expense ratio, which contains a salary program conforming to the President's guidelines. And to make it easier for the public to acquire adequate financial security, we developed the lower-cost Vanguard policies.

SOUTHWESTERN LIFE CORPORATION

In late 1978 we stated our intention of abiding by the President's announced voluntary wage and price guidelines. We fully intend to live up to this promise as best we can. However, we strongly reject the idea that America's business community alone is either responsible for or can solve the nation's dilemma caused by constantly rising inflation.

Wages and prices are not the cause of inflation-they respond to the pressures of inflation. We suggest the primary causes are (1) excessive government spending, (2) unwise, costly, and often unnecessary government regulation, and (3) government's indifference to national debt. In short our federal government is stimulating inflation while at the same time asking its citizens to control it. Southwestern Life is dedicated to a pronouncement of its belief in our free market system and to a re-education of our country's young and old to the absolute necessity of less government and more private action in our economic life.

EXAMPLES Accountants' reports qualified as to uncertainties or consistency

GEORGE WASHINGTON CORPORATION

We have examined the consolidated balance sheets of George Washington Corporation and subsidiaries at December 31, 1978 and 1977 and the related consolidated statements of operations, shareholders' equity and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The assets and liabilities included in the consolidated balance sheets of George Washington Corporation are principally those of its wholly-owned insurance subsidiaries. George Washington Corporation has no operations and its present source of funds is distributions from subsidiaries. Certain of the Company's subsidiaries are licensed by the Insurance Commissioners of various states which regulate the amount of funds which these subsidiaries may pay to the Company in the form of dividends and other items. The Company is dependent upon such funds to pay operating expenses and satisfy other obligations (see Note 13).

(continued)

The Company's federal income tax returns are currently under examination by the Internal Revenue Service as described in Note 9. The final outcome of the IRS examination and the effect, if any, on the accompanying financial statements is not presently determinable.

In our report dated March 24, 1978, our opinion on the 1977 financial statements was qualified as being subject to the effects on the 1977 financial statements of such adjustments, if any, as might have been required had the outcome of certain litigation been known. As explained in Note 13, several of the lawsuits have been resolved during 1978. In the opinion of management, the final resolution of the remaining lawsuits will not have any material adverse effects on the Company. Accordingly, our present opinion on the 1977 financial statements, as presented herein, is different from that expressed in our previous report.

In our opinion, subject to the effect, if any, on the accompanying financial statements from the resolution of the matter discussed in paragraph three above, the aforementioned consolidated financial statements present fairly the consolidated financial position of George Washington Corporation and subsidiaries at December 31, 1978 and 1977, and the consolidated results of operations and changes in financial position for the years then ended in conformity with generally accepted accounting principles applied on a consistent basis.

NORTHWESTERN NATIONAL LIFE INSURANCE COMPANY

We have examined the consolidated balance sheets of the separate and combined Stock and Mutual Departments of Northwestern National Life Insurance Company and subsidiaries as of December 31, 1978 and 1977 and their related consolidated statements of operations, shareholders' equity and Mutual Department surplus, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The financial statements of the Stock Department have been prepared on the basis of generally accepted accounting principles for stock life insurance companies. The financial statements of the Mutual Department have been prepared on the basis of statutory accounting practices prescribed or permitted by state regulatory authorities. Except for the accounting for the acquisition of Northern Life Insurance Company (See Note 4), these statutory accounting practices conform in all material respects with generally accepted accounting principles. The entire company financial statements represent the sum of the amounts shown in the financial statements of each separate department.

In our opinion, except for the effect of the accounting for the acquisition referred to above on the financial statements of the separate Mutual Department and the combined Stock and Mutual Departments for the year ended December 31, 1977, the aforementioned financial statements present fairly the consolidated financial position of the separate and combined Stock and Mutual Departments of Northwestern National Life Insurance Company and subsidiaries as of December 31, 1978 and 1977, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

AMERICAN FIDELITY LIFE INSURANCE COMPANY

We have examined the consolidated balance sheets of American Fidelity Life Insurance Company and subsidiaries as of December 31, 1978 and 1977 and the related consolidated statements of earnings, stockholders' equity and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The Company is presently involved in litigation as described in note 15(a), the final outcome of which is not presently determinable. No provision has been made in the consolidated financial statements for the effect, if any, of such litigation.

In our opinion, subject to the effect, if any, on the consolidated financial statements of the ultimate resolution of the matter discussed in the preceding paragraph, the aforementioned consolidated financial statements present fairly the financial position of American Fidelity Life Insurance Company and subsidiaries at December 31, 1978 and 1977 and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

LINCOLN NATIONAL CORPORATION

We have examined the consolidated balance sheets of Lincoln National Corporation and subsidiaries as of December 31, 1978 and 1977, and the related consolidated statements of income, capital and surplus, and changes in financial position and reconciliations from statutory accounting amounts for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

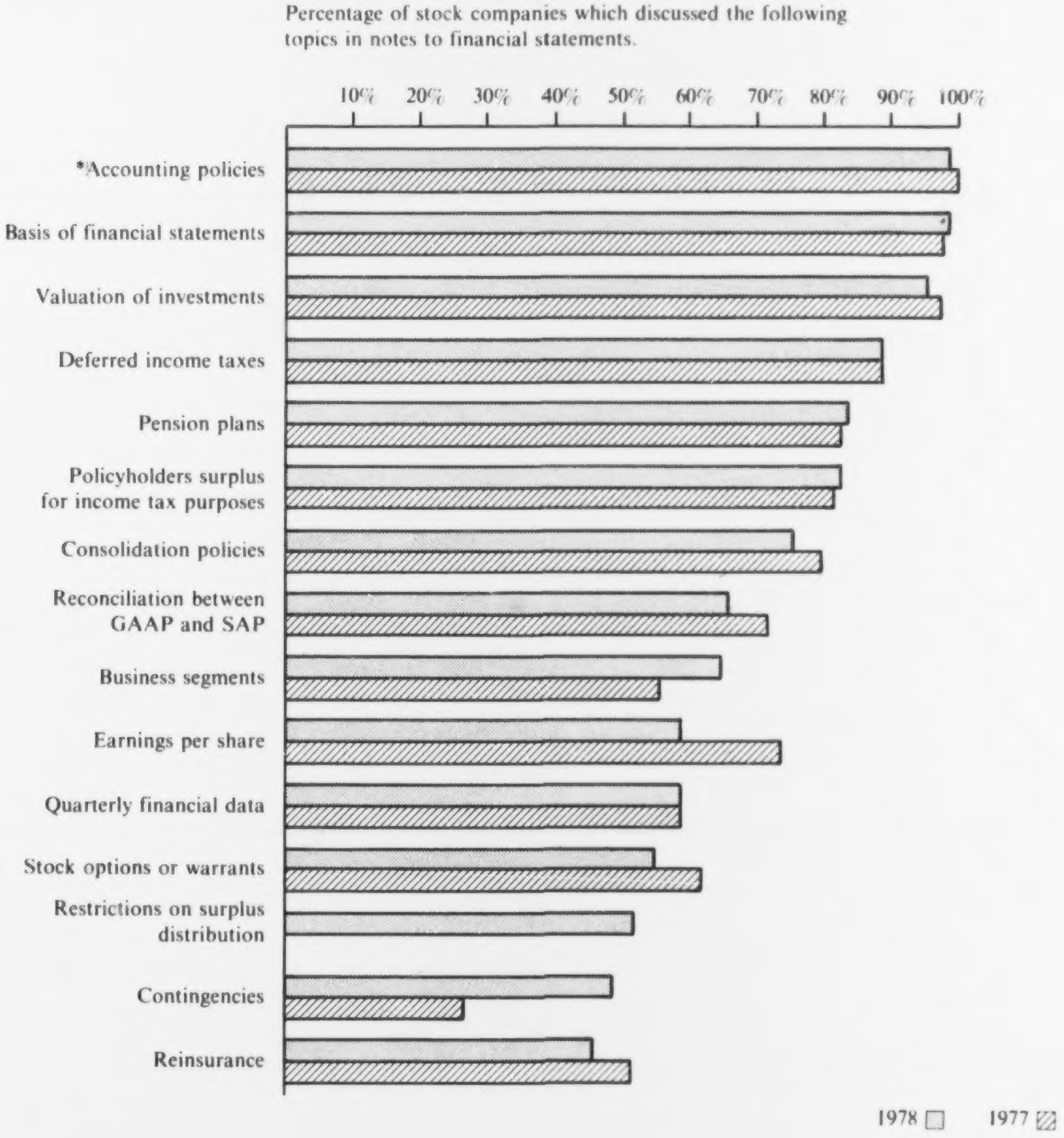
In our opinion, the financial statements referred to above present fairly the consolidated financial position of Lincoln National Corporation and subsidiaries at December 31, 1978 and 1977, and the consolidated results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the changes, with which we concur, in the methods of accounting as described in the note "Changes in Accounting" on page 30.

Section C

Selected Footnote Disclosures

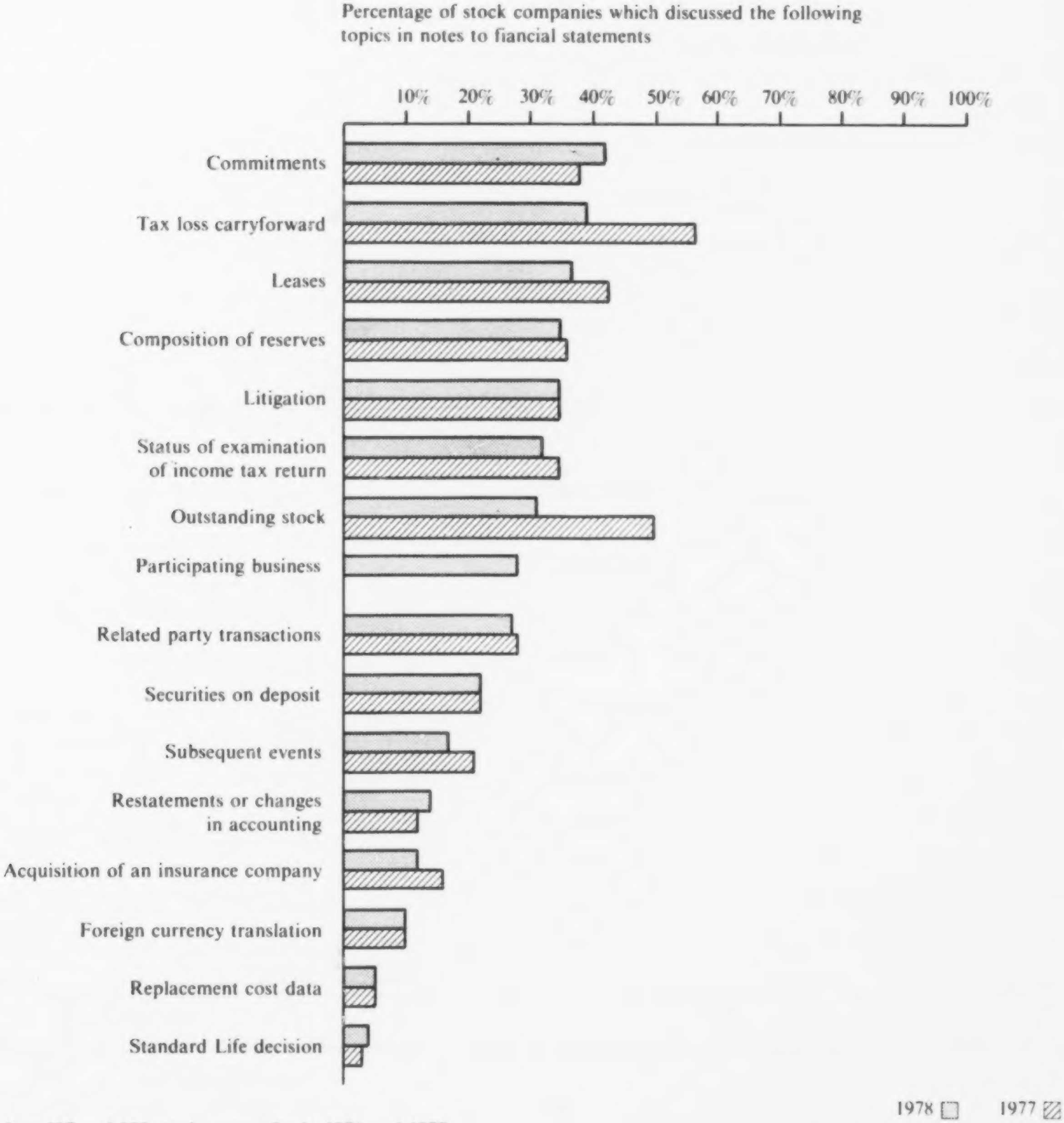
Figure C-1 summarizes the topics discussed in the notes to financial statements of stock companies surveyed in 1978 and 1977. Similar information is shown for audited mutual companies in Figure C-2.

Figure C-1. Topics Discussed in Notes to Financial Statements — Stock Companies



(continued)

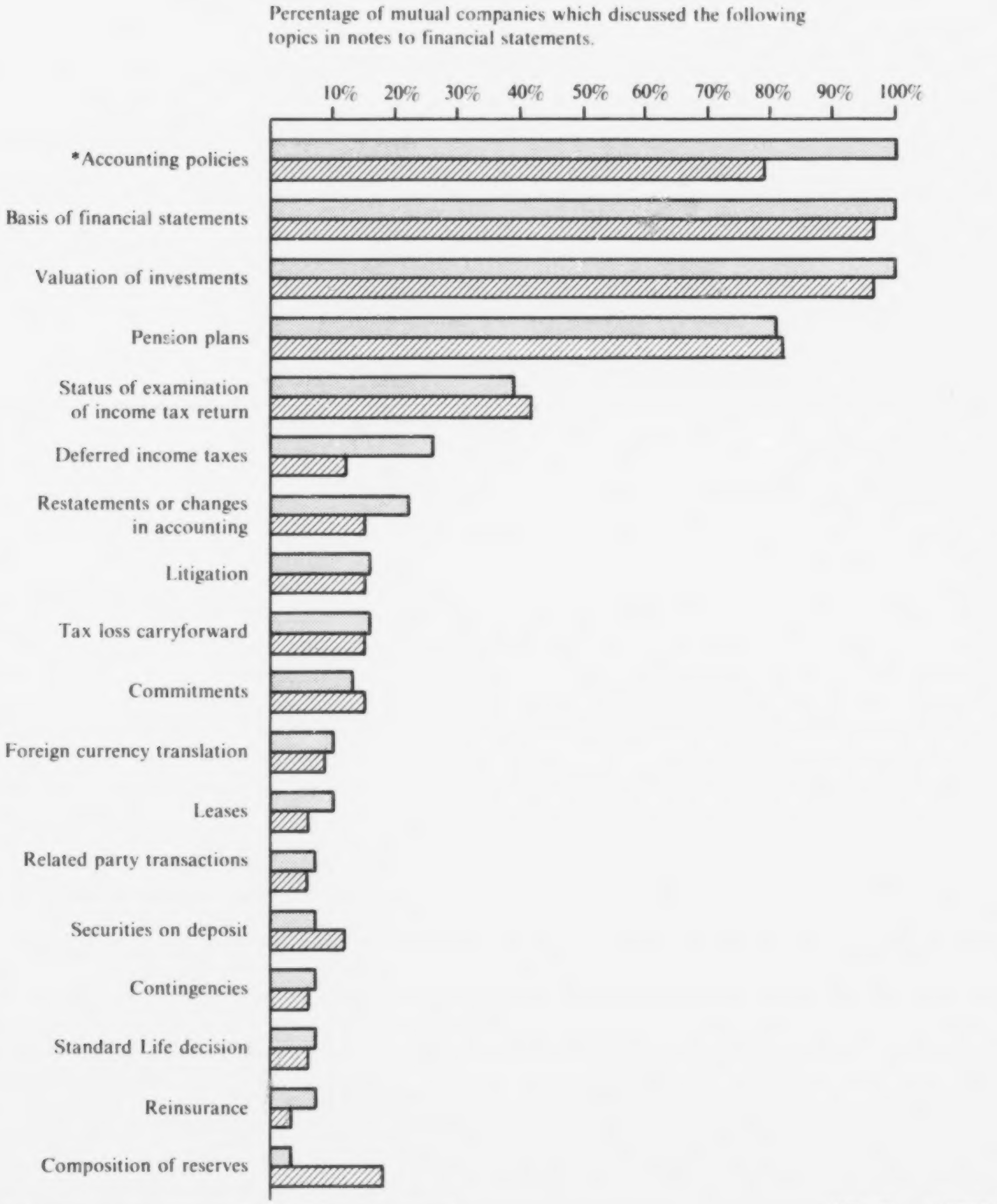
Figure C-1. Topics Discussed in Notes to Financial Statements — Stock Companies (continued)



Based on 187 and 180 stock companies in 1978 and 1977, respectively, whose reports contained footnotes to financial statements.

*Includes those companies presenting a separate summary of accounting policies.

Figure C-2. Topics Discussed in Notes to Financial Statements — Mutual Companies



*Includes those companies presenting a separate summary of accounting policies.

Based on 31 and 33 mutual companies in 1978 and 1977, respectively, whose reports contained notes to financial statements.

EXAMPLES Footnote disclosure of restatements, refinements, and accounting changes

CHESAPEAKE LIFE INSURANCE COMPANY

As explained in Note 1, the Company accrued an additional provision of $240,707 for accident and health future policy benefits in response to adverse claims experience on certain accident and health lines. The effect of this change in estimation of accident and health future policy benefits was to decrease net income prepared in conformity with generally accepted accounting principles by $161,000 or $.16 per share.

The Company refined its assumptions in estimating the costs of acquisition of new business after December 31, 1977. The effect of this change in estimate was to increase unamortized acquisition costs as of December 31, 1978 by $187,000 and accordingly increased net income by $125,000 or $.13 per share.

CONNECTICUT MUTUAL LIFE INSURANCE COMPANY

A reduction of $5,500,000 has been recorded to the policyholders' contingency reserve in 1978 to reflect revisions to the Company's equity in cumulative earnings of certain of its joint venture real estate investments. The entire amount has been reflected as an adjustment to the policyholders' contingency reserve since it relates to financial statements issued prior to 1978.

CONTINENTAL LIFE & ACCIDENT COMPANY

The Company elected to reflect its investment in real estate (home office) at appraised value beginning in 1978. Previously, the investment was stated at cost. The effect of the change in accounting method of $409,092 is reflected as an increase in unassigned surplus in 1978, but is not included in the gain from operations for 1978.

CUNA MUTUAL INSURANCE SOCIETY

Effective January 1, 1978, CUMIS Life retroactively adopted revised accounting practices promulgated by the Canadian Insurance Department. These practices require CUMIS Life to defer and amortize the costs of acquiring individual life and annuity business rather than expensing such costs as incurred, utilize more reasonable assumptions as to interest and mortality in the determination of life policy reserves, and recognize certain assets, principally furniture and equipment, which were previously excluded from the balance sheet. The effect of these changes ($327,791) at January 1, 1978, has been recorded as a cumulative effect adjustment in the 1978 statement of changes in capital.

INA CORPORATION

As of December 31, 1978, all leases entered into prior to January 1, 1977 which met the criteria for capitalization have been accounted for in accordance with Financial Accounting Standard No. 13. Assets with respect to capitalized leases amounted to $70,304,000 and $75,842,000 at December 31, 1978 and 1977, respectively, and are included in property and equipment. The retroactive application of FASB No. 13 to leases entered into prior to January 1, 1977 had the effect of increasing consolidated assets and liabilities and decreasing consolidated shareholders' equity at January 1, 1977 by $56,991,000, $59,074,000 and $2,083,000, respectively. The effects of these changes on consolidated revenues and net income for the years 1978 and 1977 were not material; therefore, the 1977 consolidated statement of income has not been restated.

Future net minimum lease payments under capitalized leases (excluding executory costs) are as follows: 1979-$13,630,000; 1980-$12,883,000; 1981-$11,818,000; 1982-$10,280,000; 1983-$9,434,000; all years thereafter-$109,519,000; amount representing interest $87,254,000; present value of net minimum lease payments $80,310,000.

JOHN HANCOCK MUTUAL LIFE INSURANCE COMPANY

The Company commenced using a modified preliminary term valuation method for permanent individual life insurance policies issued after 1977. The reserves for policies issued in prior years continue to be established using the net level premium method. Both methods are acceptable accounting practices permitted by regulatory authorities. This change improves the matching of premiums and related costs of issuing new policies. The adoption of this method resulted in an increase in the Additions to Policyholders' Contingency Reserves in 1978 of approximately $35,100,000.

LIFESURANCE CORPORATION

Effective January 1, 1974, the Boards of Directors of Kennesaw Life and Charter Life, as permitted under Georgia and California law, approved a restatement of the capital accounts whereby the statutory unassigned deficits of Kennesaw Life of $18,659,874 and of Charter Life of $733,908 at that date were eliminated by a charge to statutory paid-in capital; after restatement, Kennesaw Life had statutory unassigned surplus of $427,822 at December 31, 1978. The capital accounts of Kennesaw Life and Charter Life stated in accordance with generally accepted accounting principles were also restated and the total deficits of $14,780,971, as of January 1, 1974, were charged to capital in excess of par value.

MIDLAND MUTUAL LIFE INSURANCE COMPANY

Prior to 1978 the Company did not refund any portion of paid premiums on individual life policies applicable to periods subsequent to an insured's death. Effective December 31, 1978 the Company changed its practice to provide pro rata refunds of paid premiums applying to periods after an insured's death. This change increased life insurance reserves by $358,000 at December 31, 1978 and was recorded as a direct charge to unassigned surplus as permitted by the Ohio Department of Insurance.

During 1977 the Company increased its accident and health insurance reserves by $722,000 as a result of an examination by the Ohio Department of Insurance. This strengthening was recorded as a direct charge to unassigned surplus as prescribed by the Ohio Department of Insurance.

LINCOLN NATIONAL CORPORATION

Three changes in generally accepted accounting principles were adopted in 1978, primarily as a result of revised accounting standards issued for insurance companies by the American Institute of Certified Public Accountants. The 1977 financial statements have been restated to recognize these changes. The estimates of property-casualty claim costs are reduced by estimated recoveries from salvage and subrogation. Previously, these recoveries had been taken into income when realized. Property-casualty premiums are now reported as revenue on the earned basis rather than on the written basis. Marketable equity securities are now carried at market values; previously, the lower of aggregate cost and market was used.

The effect of the change in accounting for salvage and subrogation recoveries was to increase 1978 and 1977 net income by $307,000 and $285,000, respectively. Unassigned earned surplus increased by $2,971,000 and $2,686,000 as of January 1, 1978 and 1977, respectively. On a per share basis, the net income increase was $.01 for each year.

The effect of the change in accounting for property-casualty premiums was to decrease both revenues and benefits and expenses by $27,188,000 for 1978 and $25,071,000 for 1977. Net income was not affected by the change.

The effect of adopting the change in accounting for marketable equity securities was to increase capital and surplus by $7,709,000 and $11,523,000 at January 1, 1978 and 1977, respectively. This change did not affect net income for either period.

STANDARD LIFE INSURANCE COMPANY OF INDIANA

In prior years, the Company prepared its financial statements in conformity with the statutory accounting practices employed as required in reporting to the Indiana Insurance Department and other regulatory authorities. During 1978, the Company additionally adopted the generally accepted accounting principles basis of reporting as defined in the Industry Audit Guide for Stock Life Insurance Companies published by the American Institute of Certified Public Accountants. Accordingly, the accompanying financial statements of Standard Life Insurance Company of Indiana have been prepared in accordance with generally accepted accounting principles. The financial statements for the year ended December 31, 1977, which were previously reported on a statutory basis, have been restated. A reconciliation of net income and shareholders' equity as determined under statutory accounting practices and the amounts reported in the accompanying financial statements is included in Note 11.

Because of the change in method of presentation above, interim financial information distributed during the year will not be comparable to the information contained in the accompanying financial statements.

The information contained in the Notes to Financial Statements relating to the financial statements for the year ended December 31, 1977 has not been audited.

RELIABLE LIFE INSURANCE COMPANY

The balance of retained earnings at January 1, 1977 has been restated from amounts previously reported to reflect a retroactive charge of $1,136,395 for additional income taxes resulting from a correction of an error in calculating deferred federal income taxes. In addition to this amount $366,000 ($.24 per share) is applicable to 1977 and has been reflected as an increase in the provision for income taxes for that year.

SECURITY-CONNECTICUT LIFE INSURANCE COMPANY

Life insurance reserves are reduced as the result of reinsurance ceded to unaffiliated companies. During prior periods, a portion of this reserve reduction was estimated in the aggregate by utilizing an actuarially determined formula. In the fourth quarter of 1978, this estimate was replaced by more accurate data which was determined by applying actuarially computed factors to an in force listing of reinsured policies. The result of this change in estimate increased both operating and net income by $888,000 ($0.30 per share).

EXAMPLES Footnote disclosure of litigation

BENEFICIAL STANDARD CORPORATION

The Company and its subsidiaries are defendants in several law suits. Based in part upon the opinions of counsel as to the extent of probable exposure in these suits, if any, the Company's policy is to make provision for losses which might be incurred as a result of any settlements or judgements arising from such law suits.

In addition, several of the Company's life insurance subsidiaries are defendants in insurance policy litigation involving substantial claims for damages, including compensatory and punitive damages, in excess of policy limits. The inherent uncertainties of such litigation prevent an estimate of possible loss or range of loss, if any. Management, after review, including consultation with counsel, considers it improbable that any ultimate liability which could arise from such claims would have a material adverse effect upon the consolidated financial statements of the Company and its subsidiaries.

UNITED BENEFIT LIFE INSURANCE COMPANY

The Company is a party to a lawsuit filed in the County Court of Douglas County, Nebraska, for interpretation of an ambiguity in the Will of Dr. C.C. Criss, deceased, incorporating therein a Trust of Mabel L. Criss, deceased. Outside independent counsel have advised the Company that it has a substantial claim as residual beneficiary under the Trust and management has authorized counsel to pursue that claim. The probability of success cannot be estimated at this time. In the event that the claim is successful, substantial uncertainty exists, due in part to tax considerations and intervening life interests, as to when the Company might recover and what amounts might be recovered. As the present value of the Trust is approximately $11,000,000, management assumes that any recovery could be material.

FOREMOST CORPORATION OF AMERICA

Foremost Life Insurance Company, a wholly-owned subsidiary of the Company, was party to reinsurance agreements with Keystone Life Insurance Company and National Trust Life Insurance Company(reinsurers). Under the agreements, agents of the reinsurers wrote credit life and accident and health insurance for Foremost Life which ceded the premiums to the reinsurers, retaining a ceding commission. Under the agreements, the reinsurers were responsible for all losses on these policies.

During 1978, both reinsurers filed for bankruptcy and Foremost Life became responsible for all unpaid losses and future claim losses. Pursuant to the bankruptcy proceedings, it was discovered that Keystone Life Insurance Company issued policies without Foremost Life's knowledge. Foremost life is responsible for claims associated with these policies.

Foremost Life and National Trust Life maintained a joint trust account to cover estimated losses on ceded business in the event of bankruptcy of the reinsurer. During 1978, the bank trustee of the account allowed substitution of National Trust Life Stock for cash and securities in the account without authorization by Foremost Life. In addition to claims filed in bankruptcy proceedings, a suit has been instituted by Foremost Life against the bank to recover such funds.

Foremost Life has established a reserve of $750,000 for the estimated costs of settlement. It is the opinion of management that the settlement of this litigation will not have a material effect on the consolidated financial position and results of operations of the Company.

The Company has other matters of litigation generally incidental to its business. It is the opinion of management that the outcome of these lawsuits will not have a material effect on the consolidated financial position and results of operations of the Company.

GULF UNITED CORPORATION

In 1975 a complaint was filed against Gulf United, one of its present subsidiaries, two former subsidiaries and various other parties. The complaint was filed by a corporation to which a former subsidiary sold one of its subsidiaries in 1972. In 1974 the sold subsidiary was the subject of an involuntary petition for reorganization and currently is the subject of proceedings looking toward its liquidation. The complaint alleges violation of the Securities Exchange Act of 1934 and the General Business Law of the State of New York, common law fraud, and breach of warranties in the sales agreement. Compensatory damages of $6,000,000 and punitive damages of not less than $6,000,000 are sought against Gulf United and its subsidiaries. An answer has been filed denying all material allegations, raising affirmative defenses and asserting counterclaims. In the opinion of Gulf United's counsel there are substantial meritorious defenses to the action, and Gulf United intends to aggressively pursue its defenses and counterclaims and believes any ultimate liability will not be material.

Upon the consummation of the merger of Equitable General and Gulf Life Insurance Company on January 11, 1979, Gulf Life succeeded to whatever liabilities Equitable General might have with respect to the matters asserted against it in the lawsuit described below, and to any obligations of Equitable General under its bylaws to indemnify its directors or officers if, and to the extent that Equitable General has any such liabilities or obligations, as of January 11, 1979.

Equitable General and certain of its directors were named as defendants in a civil action filed by American General Insurance Company. American General and Equitable General signed an Agreement in January 1978, by which Equitable General purchased 315,000 shares of its own issued and outstanding common stock from American General and (2)American General agreed to terminate its efforts to acquire additional shares of Equitable General's common stock. American General in its complaint in this action alleges that, at the time of entering into the Agreement and at the time Equitable General purchased its stock from American General, Equitable General did not reveal to American General the true nature of discussions Equitable General was having with other companies regarding acquisition of Equitable General's common stock, and that Equitable General's warranty in the Agreement with respect to negotiations or agreements with other companies to purchase its stock was false and misleading, causing American General(1)to sell the stock at a price which resulted in American General's not being able to realize the increment in value on the stock occurring since the Agreement and (2)to withdraw its application to the Virginia State Corporation Commission for approval of additional purchases of Equitable General's common stock and terminate its efforts to acquire additional shares of Equitable General's issued and outstanding common stock.

Also, American General by means of an amended complaint has alleged violations of the anti-fraud provisions of the Federal and Texas securities laws by Equitable General for failure to disclose actuarial appraisals in its possession at the time of its purchase of the 315,000 shares of its stock from American General. American General has requested rescission of its sale of Equitable General's stock to Equitable General or, in the alternative, damages amounting to $5,827,000. In addition, American General has alleged damages in the amount of $9,624,000 resulting from its withdrawal of its application to the Virginia State Corporation Commission for approval of the proposed acquistion of up to 20.9% of Equitable General's common stock.

Equitable General has filed a counterclaim and Counsel for Equitable General and the individual defendants has advised that, in its opinion, the likelihood is remote that American General will recover on its claim for $9,624,000 based on damages resulting from the withdrawal of its application with the Virginia State Corporation Commission to acquire up to 20.9% of Equitable General's stock. Counsel has further advised that all defendants have substantial and meritorious defenses to American General's claim for $5,827,000 arising out of the sale of its 315,000 shares of Equitable General stock. Gulf Life and the individual defendants intend to continue to defend this suit vigorously and Gulf Life intends to vigorously prosecute its counterclaim. In the opinion of Gulf United the ultimate resolution of this litigation will not have a material adverse effect on the financial statements. Any settlement costs in the resolution of this litigation will be charged as cost of insurance purchased of Equitable General.

LINCOLN INCOME LIFE INSURANCE COMPANY

Lincoln Income had been the insurance carrier of the Oklahoma State Employees Group Health and Life Insurance program from November 1, 1970 to February 28, 1977. The case represented a large segment of the total group portfolio. Requests were received from the Oklahoma State Employees Group Health and Life Insurance Board for an experience refund which they allege derives from the financial experience of the group plans, according to their interpretation of the contracts and their method of accounting. Formal and informal meetings have been held between the parties reviewing the specifications and contracts, defining commonly used industry terms and practices and their use and application in the development of reserve liabilities, and the method of accounting and reporting of the financial experience of the plans. This matter is now in litigation in the District Court of Oklahoma County, Oklahoma. A total payment in the sum of $1,853,860.43 has been demanded, with interest at the rate of 6% per annum from March 1, 1978. Company Counsel in association with local counsel in Oklahoma City, Oklahoma are actively engaged in the development of the issues of the case so that the Company's position can be demonstrated to the court as the proper interpretation of the contracts and specifications. The Company believes that its position is in conformity with the practices and experience of the group life and health insurance industry.

Management, Company Counsel, and the Company's actuarial consultant for group insurance, XXX, believe that the Company's interpretation of the contracts and the accounting of the financial experience of the plans are correct. However, such litigation is time consuming and results cannot be predetermined with absolute certainty.

INTEGON CORPORATION

On August 5, 1977, a civil rights action was filed in the United States District Court for the Middle District of North Carolina. The action charges Integon Corporation with discrimination, on account of race, in employment and employment opportunities, under the Civil Rights Act of 1870, and Title VII of the Civil Rights Act of 1964. The complaint seeks injunctive relief, the awarding of back pay, and punitive damages in the amount of $600,000. On August 21, 1978, an order was issued in the action by the presiding judge denying the plaintiffs motion for class action certification. Consequently, only those filing the complaint and certain specific other present or former employees, who may elect to join in the action, are entitled to seek damages. In management's opinion, the ultimate outcome of this litigation will not have a material adverse effect on the Company's financial position or results of operations.

On March 9, 1978 an action was instituted in the Kentucky District Court, Eastern District of Kentucky by a former general agent of Integon Indemnity Corporation. The complaint alleges that Integon Indemnity Corporation wrongfully terminated the general agency contract it had with the plaintiffs, prematurely cancelled policies written under the agreement without notice thus depriving the plaintiffs of commissions on such policies in the amount of $200,000, and that Integon Indemnity Corporation damaged the reputations of the individual agent plaintiff in the amount of $500,000 and of the corporate agency plaintiff in the amount of $500,000. Integon Indemnity Corporation has filed a counterclaim in the action seeking over $207,000 in premiums wrongfully withheld from Integon by the plaintiffs. The ultimate liability, if any, under these claims is not presently determinable; however, management, after discussion with counsel, is of the opinion that liability, if any, will not have a material adverse effect on the financial statements.

There are various other lawsuits against the Company incident to the ordinary course of business. While there is no way of determining the amount of liability, if any, under these lawsuits, in the opinion of management, adequate provision has been made in the accounts of the Company to cover these claims.

The Company has entered into contracts totalling $15,229,000 for construction of its new home office building in Winston-Salem, North Carolina. This 18-story building is estimated to cost approximately $18,000,000. Through December 31, 1978 $4,515,000 had been disbursed for progress payments to contractors and others.

Integon Corporation and a subsidiary are contingently liable at December 31, 1978 to the extent of $3,793,000 as a result of guarantees of indebtedness of affiliates and others.

EXAMPLES Footnote disclosure of proposed federal income tax deficiencies

AMERICAN HERITAGE LIFE INVESTMENT CORPORATION

As previously reported, the Internal Revenue Service ("IRS") examined the Company's Federal income tax returns for the years 1957 through 1972. The proposed adjustments approximate $2,600,000 excluding interest. Outside tax counsel is of the opinion that only a minority of the issues will be resolved in favor of the IRS. The IRS is currently conducting an examination of the Company's 1973 and 1974 tax returns. It is the opinion of management that the effect of additional taxes and related interest on issues raised in the examinations which may be sustained in favor of the IRS would not be material to the Company's financial position.

CONNECTICUT MUTUAL LIFE INSURANCE COMPANY

The Internal Revenue Service has examined the Company's 1972 and 1973 returns, proposing additional taxes. Provision has been made for those assessments and for deficiencies which may be asserted for the years 1974 through 1978, of which $600,000 was charged to the policyholders' contingency reserve in 1977.

A final settlement of Federal income taxes for the years 1958 through 1971 resulted in a refund to the Company of $7,800,000 in 1977. Interest of $1,700,000 on the refund was recorded as other income and $6,100,000 previously charged against the policyholders' contingency reserve was credited to that account in 1977.

LIBERTY NATIONAL LIFE INSURANCE COMPANY

The Company's income tax returns have been examined by the Internal Revenue Service through the year 1975. For the years 1966 through 1969, additional assessments were made as a result of the examination and have been paid. The Company filed claims for refund of the major portion of these assessments, and the claims were allowed in part and denied in part by the Internal Revenue Service. The Company filed suit for refund of that part of the claims which was denied in the amount of approximately $607,000 plus interest. A judgement by the U.S. District Court in favor of the Company concerning this suit has been rendered. The Government has appealed this decision to the Court of Appeals for the Fifth Circuit which has not yet reached a decision. For the years 1970 through 1972, additional assessments were made amounting to approximately $1,559,000 plus interest. These additional taxes were paid during 1974. Claims for refund for these years amounting to approximately $1,549,692 of tax have been filed. The Internal Revenue Service has not yet acted on these claims. Additional assessments were made for the calendar years 1973 through 1975 amounting to approximately $2,470,000 plus interest, which was paid in 1978. It is anticipated that claims for refund of tax amounting to approximately $2,002,000 will be filed. No amounts have been recorded to reflect the possible recovery of any of these additional assessments.

STANDARD INSURANCE COMPANY

The provision for Federal income taxes is determined under sections of the Internal Revenue Code applicable to life insurance companies and is based generally on defined net investment income less an allowance for interest on policy reserves and other policyowner funds. The 1977 provision has been reduced by $659,000 as a result of the settlement of examination adjustments related to 1976 and prior years. Deferred income taxes are provided for the tax effect of timing differences in reporting transactions-primarily depreciation-for financial and tax purposes. Deferred income taxes, included in the provision for Federal income taxes, amounted to $330,000 for 1978 and $440,000 for 1977. At December 31, 1978, the liability for Federal income taxes includes accumulated deferred income taxes of $4,020,000.

UNION LABOR LIFE INSURANCE COMPANY

During 1978, Internal Revenue Service (IRS) proposed adjustments affecting the Company's income tax returns for the years 1972 through 1975 which, if accepted by the Company, would result in federal income tax refunds and related interest for all years prior to 1978 of $1,601,141. Such refunds and interest have been included in the accompanying financial statements.

During January 1979, the Company filed protests with the IRS for the years 1972 through 1975 objecting to certain of the IRS's proposed adjustments and maintaining that federal income tax refunds substantially greater than those proposed by the IRS are due the Company. As the Company's protest is at a preliminary stage, it was not possible to determine with certainty as of December 31, 1978 the amount of additional refunds, if any, which will be received. Accordingly, no amount has been included in the accompanying financial statements for these uncollected federal income tax refunds.

UNION BANKERS INSURANCE COMPANY

The Company's Federal income tax returns have been examined by the Internal Revenue Service (IRS) through 1971. The Internal Revenue Service has proposed tax deficiencies for the years 1968 through 1971 of $977,000, plus interest. These proposed deficiencies result from the IRS disallowing, as a deduction, the cost of business acquired. The Company does not agree with the findings and filed a protest as it believes that such costs are deductible and furthermore, it believes that the amounts, if any, of additional taxes to be paid as a result of the proposed deficiencies will not be material.

EXAMPLES Footnote disclosure of subsequent events

AMERICAN GUARANTY FINANCIAL CORPORATION

In February 1979, the Company determined that approximately $520,000 of net premiums for certain group insurance policies that had been remitted to a third party administrator were uncollectable. Of that amount, approximately $300,000 is reflected as premiums receivable at December 31, 1978. In the opinion of Company management and legal counsel, no significant loss will result because of bonding coverage available to the Company.

On March 1, 1979, subsequent to the termination of the previous administrator, the administration of these group insurance policies had been transferred to another third party administrator who has agreed to pay the Company for such transfer an amount equal to the unremitted net premiums. Such premiums will be paid to the Company over a 36-month period with interest at 10% per annum, commencing June 1, 1979. This amount is in addition to any underwriting gain or loss which may be experienced by the Company from such business.

On March 9, 1979, the Company acquired all of the outstanding common stock of Bowman's Mount Hood Golf Club Inc., for $3,000,000.

AMERICAN PIONEER CORPORATION

An amendment to the Special Reinsurance Agreement (See Note H) has been executed with a March 1, 1979 effective date. The amendment increases the reinsurance of the retained interest in the block of business by 40% to 67.2%. The additional initial commission allowance of $600,000 provides statutory "surplus relief". The annual cost to the Company (risk charge) is $48,000 for the first year and $36,000 per year thereafter. As a part of this agreement, the reinsurer was given additional security in the form of an assignment of investment securities (utility bonds) with a market value of $204,500 as of December 31, 1978.

The Company was informed by the bank in January 1979, that as a condition of continuing the credit under the term loan and revolving credit agreement (See Note G) to December 15, 1979, the Company must fulfill certain requirements, including the following:

a. $500,000 of new outside capital to be injected by April 15, 1979 (subsequently extended to May 15, 1979), with an additional $1,000,000 of new capital to be injected by December 1, 1979.

b. The remaining real estate investments held must be sold by August 1, 1979.

Management does not believe these requirements can be fulfilled within the specified time limits, however, they anticipate the bank will continue the credit to its December 15, 1979 maturity date.

UNITED DIVERSIFIED CORPORATION

The Company's subsidiary, Associated Life Insurance Company, entered into an agreement on June 30, 1977, effective April 1, 1977, with Acceleration Life Insurance Company whereby it coinsured its ordinary life insurance policies written prior to January 1, 1976. As consideration for entering into this agreement, Associated Life received a commission of $1,000,000. Associated Life retained the right to cancel the agreement by January 1, 1979, and recapture the business for $1,000,000 plus 15% interest compounded annually, plus or minus certain other adjustments as provided in the agreement. Effective January 1, 1979, Associated Life cancelled the coinsurance agreement with Acceleration Life Insurance Company and recaptured this business.

On March 31, 1979, Associated Life coinsured 75% of the business recaptured from Acceleration Life Insurance Company with Tara Life Insurance Company of America. As consideration for entering into this agreement, Associated Life received a commission of $750,000. Associated Life has retained the right to recapture the business after March 31, 1981, for $750,000 plus 15% interest compounded annually, plus or minus certain other adjustments as provided in the agreement. Subsequent thereto, Associated Life is required to recapture one-third of the business coinsured as of March 31, 1982 and one-third on each successive March 31 through 1984. As of April 19, 1979, this agreement was under review by the State of Illinois, Associated Life's state of domicile. Management of the Company believes that approval will be granted.

The net impact of these two reinsurance agreements was to decrease Associated Life's statutory surplus by approximately $61,000.

EXAMPLES Footnotes disclosure of acquisitions and change in control

ACADEMY INSURANCE GROUP, INC.

On August 31, 1978 the Company acquired the 46.6% minority owned common shares of Ammest Group, Inc. (Ammest), a company engaged primarily in the life insurance business, for an aggregate purchase price of $3,543,565. The Company exchanged 653,604 of its preferred shares aggregating $3,326,844 ($5.09 per share assigned value) for an equal number of Ammest common shares. Other costs of the acquisition amounted to $216,721. The excess of cost over net assets of $1,692,574 arising from the transaction is being amortized over forty years. In addition, in July 1978 the Company purchased an additional 1.6% of the outstanding shares of Pension Life Insurance Company of America held by minority shareholders for $71,610.

In the first quarter of 1977 the Company purchased 2.9% of the common shares of Ammest for $340,181.

All of these acquisitions were accounted for a purchases and, accordingly, the operations of the acquired companies are included in the consolidated financial statements since the dates of acquisition.

The following is an unaudited condensed summary of pro forma results on a consolidated basis for the years ended December 31, 1978 and 1977, assuming Ammest was wholly-owned and the additional Pension shares were acquired on January 1, 1977:

	1978	1977
Revenues	$19,980,084	$21,441,089
Income (loss) before realized investment gains and extraordinary credit	126,563	(773,473)
Income (loss) before extraordinary credit	143,769	(714,198)
Net income (loss)	143,769	(554,198)
Net loss per share of common stock (after deducting preferred dividend requirement of $366,018):		
Loss before realized investment gains and extraordinary credit	$ (.06)	$ (.32)
Loss before extraordinary credit	(.05)	(.30)
Net loss	(.05)	(.26)

In conjunction with a prior purchase of the outstanding shares of a subsidiary, 283,333 of the common shares of the Company were released from escrow in each of the years 1978 and 1977. No additional shares are held in escrow in conjunction with this acquisition at December 31, 1978.

GULF UNITED CORPORATION

On September 12, 1978, Gulf United completed its acquisition of Rahall Communications Corporation in a statutory merger whereby each share of the 1,264,741 shares of Rahall's common stock outstanding were exchanged for one share of Series A Stock. The total purchase price, including the estimated fair value of the Series A Stock ($22 per share) and costs of the merger, was $28,225,000. On July 31, 1978, Gulf United completed its acquisition of a VHF television station and an FM radio station for $24,000,000 in cash. A previous agreement to acquire an additional VHF television station has expired. The acquisitions of the broadcasting properties have been accounted for as purchase transactions and are included in the financial statements from date of acquisition.

Effective January 11, 1979, Gulf Life Insurance Company, a subsidiary of Gulf United, completed its acquisition of Equitable General Corporation in a statutory merger whereby 1,182,409 shares of Equitable General common stock were acquired by Gulf Life for $51 per share in cash and each of the remaining 1,693,863 shares of Equitable General common stock outstanding were exchanged for one share of Gulf United's Series B Stock. The acquisition of Equitable General will be accounted for as a purchase transaction and its operations will be included from date of acquisition. See

(continued)

Note 12 for pro forma effects of the merger with Equitable General and the acquisition of broadcasting properties.

In December 1978, Gulf United purchased for $458,000 a small life insurance company and contributed it to a life insurance subsidiary and also acquired the minority interest in that life insurance subsidiary by the issuance of 43,800 shares of common stock with an aggregate value of $592,000.

During 1977, a company which operates a natural gas gathering system was acquired for $3,200,000 and an AM radio station was acquired for $1,250,000. These minor acquisitions were accounted for as purchase transactions and, accordingly, are included in the financial statements from date of acquisiton.

(Separate footnote)

The following condensed pro forma combined balance sheet assumes that the January 11, 1979 merger with Equitable General occurred as of December 31, 1978 and the fair value of Equitable General's assets and liabilities were determined as of that date. The pro forma combined summary of earnings for the years ended December 31, 1978 and 1977 assumes that those fair value adjustments, and the fair value adjustments made as of the dates of acquisition of broadcasting properties, in the same amounts, were made as of the beginning of each year. The fair value adjustments for recording the purchase of Equitable General presently are being determined by Gulf United and examined by its independent auditors. Since the adjustments necessary to prepare final pro forma financial statements are not yet available, the following statements are not necessarily indicative of the results of operations or the financial position as they may be after the final fair value adjustments are determined, as they may be in the future or as they might have been had the merger and the acquisition of the broadcasting properties become effective on January 1, 1977.

For purposes of the pro forma balance sheet, the net assets of Equitable General have been adjusted to reflect the preliminary estimated fair value of its tangible assets and liabilities at December 31, 1978 as follows:

1. Bonds are adjusted to estimated market value.
2. Common and preferred stocks are based on market value. The adjustment has been reflected as an unrealized investment loss since stocks are carried at market value.
3. Mortgage loans are adjusted to estimated present value.
4. Real estate is adjusted to appraised value.
5. The deferred policy acquisition costs and deferred income taxes recorded by Equitable General are eliminated.
6. Policy reserves are based on preliminary actuarial estimates using current rather than historical assumptions as to expected mortality and withdrawals and using a 6 1/2% level interest rate. Such assumptions are believed to provide adequately for the possibility of adverse deviation from expected experience.
7. The fair value adjustments to the tangible assets and the policy reserves reflect the estimated tax effects of differences between tax bases (which did not change as a result of the merger) and the estimated fair value prior to the tax adjustment.

The cost of Gulf United's investment in Equitable General of $139,704,000 includes the estimated value of the Series B Stock issued and donated to Gulf Life to effect the transaction, the cost of the shares acquired for cash, the cost of 8,000 shares owned by Gulf Life and the estimated costs of the merger. The excess of the cost of Gulf United's investment in Equitable General over Equitable General's net assets based on the estimated fair value of tangible assets and liabilities will be allocated to the insurance in force of Equitable General and will be amortized as Gulf United's acquisition cost over the expected life of the insurance in force.

Gulf Life borrowed on a short-term basis a portion of the funds to purchase those Equitable General common shares acquired for cash, and it believes these funds will be repaid from its ordinary cash flow within one year.

The pro forma combined summary of earnings gives effect to the adjustments described below:

Equitable General

1. The discount on mortgage loans and bonds is amortized over their estimated average lives.
2. Policy reserve increase is reduced because of the change to current assumptions.
3. The amortization of deferred policy acquisition costs as recorded by Equitable General is eliminated and the amortization of the cost of insurance purchased is reflected.
4. Certain expenses incurred by Equitable General in connection with several merger proposals and certain litigation is eliminated.
5. Gulf Life's investment income is reduced for assumed liquidation of short-term investments.
6. Gulf Life's additional interest expense incurred in connection with assumed short-term borrowings of a portion of the purchase price is reflected.
7. Gulf Life's tax effects of reduction of investment income, additional interest expense, and assumed payment of dividends by Equitable Life of $2,000,000 in 1977 and 1978 is reflected.
8. Minority interest in earnings of Equitable General through Gulf Life and preferred stock dividend requirements have been reflected.

Broadcasting Properties

9. Rahall's provision for income taxes has been eliminated since income during the period would have been offset by Gulf United's losses not providing tax benefits.
10. Cost of broadcast licenses is amortized over 40 years.

11. Additional interest expense has been reflected and investment income has been eliminated assuming that the cash portion of the acquisition had been financed since January 1, 1977.

12. Additional preferred stock dividend requirements have been reflected.

The Series A Stock and Series B Stock are not common stock equivalents at issue; therefore, the shares are not considered to be outstanding in determining primary earnings per share. The assumed conversion of the Series A Stock and Series B Stock and elimination of the preferred dividend requirement results in an anti-dilutive effect on earnings per share.

(Pro Forma Combined Summary of Earnings (Unaudited))
For the Years Ended December 31, 1978 and 1977
(In Thousands of Dollars)

	1978	1977
Revenues	$458,599	$415,142
Costs and Expenses:		
Policy benefits paid or reserved	232,426	211,444
Operating expenses, etc.	97,203	86,031
Amortization of policy acquisition costs	30,746	27,841
Interest and debt expense	16,247	14,802
Total	376,622	340,118
Income before income taxes	81,977	75,024
Provision for income taxes	25,194	22,070
Income before realized investment gains	56,783	52,954
Realized investment gains	153	660
Net income	56,936	53,614
Preferred dividend requirements:		
Cash dividends	(7,895)	(7,894)
Accrual of difference in issue and redemption value	(1,892)	(1,892)
Earnings applicable to common stock	$ 47,149	$ 43,828
Per share of common stock:		
Income before realized investment gains	$ 2.13	$ 1.96
Realized investment gains	.01	.03
Earnings applicable to common stock	$ 2.14	$ 1.99

The following presents the pro forma results of operations on the assumption that the broadcasting acquisitions only had been consummated and the adjustments to reflect the fair value of tangible assets and liabilities at dates acquired had been made at the beginning of each year (in thousands):

	1978	1977
Revenues	$411,001	$369,980
Earnings Applicable to Common Stock ($2.17 and $1.97 per share)	$ 47,803	$ 43,406

(Condensed Pro Forma Combined Balance Sheet (Unaudited))
December 31, 1978
(In Thousands of Dollars)

Assets	
Investments:	
Bonds	$ 599,206
Stocks	148,674
Mortgage loans on real estate	437,080
Policy loans, real estate and other	158,405
Cash	13,942
Property and Equipment	46,806
Deferred Policy Acquisition Costs	215,755
Excess Cost and Broadcast Licenses	67,856
Receivables, Etc.	56,614
Total	$1,744,338

Liabilities	
Policy Reserves	$ 917,167
Policy Claims Payable and Funds Held for Policyholders	98,406
Notes Payable	182,305
Accounts Payable, Accrued Expenses, Etc.	52,434
Income Taxes	64,157
Total	1,314,469
Preferred Stock:	
Series A (aggregate liquidation and redemption value $38,032,000)	28,239
Series B (aggregate liquidation and redemption value $84,348,000)	77,550
Total	105,789
Common Stockholders' Equity:	
Common stock	22,898
Additional paid-in capital	85,171
Unrealized investment gains (losses)	(20,593)
Retained earnings	245,466
Treasury stock	(8,862)
Common stockholders' equity	324,080
Total	$1,744,338

MODERN AMERICAN LIFE INSURANCE COMPANY

On April 12, 1977, a group of stockholders including thirteen of the Company's directors, its principal officers and certain key executives created a voting trust for shares of common stock of the Company under which they agreed to deposit shares then beneficially owned and any shares subsequently acquired. The voting trust has a duration of 25 years except that after 5 years it can be terminated by vote of the members. There are 18 participants in the voting trust for which Messers. Grant Davis, Chairman of the Board, W.E. Parker, President and Lloyd R. Parker, Executive Vice President of the Company, serve as managing trustees with power to vote the shares held by the trust. On December 8, 1977, I.C.H. Corporation, an insurance holding Company located in Kansas City, Missouri, sold 260,133 shares of the common stock of the Company at a price of $8.42 per share (aggregate purchase price-$2,190,319.86) to 22 purchasers, including the 18 members of the voting trust. To date 663,317 shares representing 49.9% of the outstanding stock of the Company have been deposited under the voting trust and, thus, the voting trust may be deemed to be a parent or controlling person of the Company.

STANDARD SECURITY HOLDING CORPORATION

Standard Security Holding Corporation ("the Holding Company") was incorporated on February 10, 1976 under the Delaware General Corporation Law. On September 26, 1978, the Holding Company commenced an exchange offer to the shareholders of the Standard Security Life Insurance Company of New York ("the Company") pursuant to which shareowners were offered the opportunity to exchange their shares of common and class A stock for common stock and preferred stock of the Holding Company on a one for one basis, plus 1 share of preferred stock for each 10 shares of common or class A stock exchanged. Upon expiration of the exchange offer on November 13, 1978, the Holding Corporation issued 1,034,738 common shares, 103,474 preferred shares and acquired 1,034,738 shares, or approximately 97.5% of outstanding common and class A shares of the Company.

The exchange offer has been accounted for as a pooling of interests and the financial statements for 1977 have been restated to give effect to the pooling. Net Income and Total Income for 1977 (prior to pooling) of the Holding Company and the Company were as follows:

	Net Income	Total Income
Standard Security Life Insurance Company of New York	$1,697,879	$24,742,272
Minority interest. . .	43,294	-0-
Per accompanying statements	$1,654,585	$24,742,272

EXAMPLES Footnote disclosure of troubled debt restructurings

ACADEMY INSURANCE GROUP, INC.

On March 29, 1978, the Company amended its May 1976 Term Loan Agreement with its principal bank lenders. On November 30, 1978 a principal prepayment of $3,200,000 was made by the Company and the Term Loan Agreement was again amended. The latest amended agreement provides for monthly principal payments commencing January 1, 1979 of $70,834 for the first 24 months, $45,834 for the next 12 months, $41,667 for the next 12 months, $75,000 for the next 12 months, $66,667 for the next 12 months, $100,000 for the next 24 months and $48,877 per month until the principal balance is fully paid (approximately 3 months).

In addition, the agreement calls for prepayment of principal amounts in the inverse order of their due dates equal to 50% of the amount by which the Company's consolidated net income minus preferred dividends and principal payments on this term loan in each fiscal year exceed $1,000,000. Interest on the term loan is accrued at 4 1/2% per annum through December 31, 1983 and at 2% in excess of the bank's prime rate of interest thereafter, payable at a monthly rate of 1% per annum through December 31, 1981, 2% per annum through December 31, 1983 and bank prime plus 2% thereafter. Non-interest bearing notes are issued for the accrued but unpaid interest and are payble in 12 equal monthly installments beginning on the sooner of April 1, 1987, the month following payment of all principal. The agreement also provides, among other things, that the Company: (1) maintain consolidated shareholders' equity of not less than $8,490,301; (2) maintain statutory net worth and operating income of the insurance subsidiaries at stipulated amounts; (3) maintain statutory premium income before reinsurance ceded of Academy Life Insurance Company at stipulated amounts; (4) maintain a ratio of unamortized policy acquisition costs to total assets not in excess of 4.5 to 10; (5) not declare or pay any cash dividends on common stock; (6) not incur any additional indebtedness or borrowed money; and (7) not enter into any merger or acquisition agreements.

Each of these amendments have been accounted for as troubled debt restructurings under the provisions of Statement of Financial Accounting Standards No. 15. Accordingly, the interest charge to operations was computed by application of a constant effective interest rate (5.8% and 4.3% with respect to the March 29, 1978 and November 30, 1978 amendments, respectively).

The term loan is collateralized by the Company's interest in the outstanding common shares of all its subsidiaries, except for Pension.

STATE MUTUAL LIFE ASSURANCE COMPANY OF AMERICA

The Company has agreed to modify the original terms of certain loans to assist the borrowers through periods of financial difficulty. The aggregate investment in restructured loans was $21,796,000 at December 31, 1978 and $23,225,000 at December 31, 1977.

The interest on these loans included in investment income for 1978 and 1977 was $1,529,000 and $1,827,000, respectively. Had these loans continued under their original terms, interest earned for 1978 and 1977 would have been $1,880,000 and $2,069,000, respectively.

EXAMPLES Footnote disclosure of related party transactions

COTTON STATES LIFE AND HEALTH INSURANCE COMPANY

Certain directors of the Company are either officers or directors of Gold Kist Inc. Furthermore, most officers and directors of the Company hold similar positions with Cotton States Mutual Insurance Company. Cotton States Mutual, through its wholly owned subsidiary, Shield Insurance Company, controls 39% of the Company's outstanding common stock.

Gold Kist has group policies with the Company which provided approximately 69% and 70% of total accident and health premium income and 10% and 11% of total life premium income during 1978 and 1977, respectively. The premiums paid by Gold Kist are based upon actual claims experience so as to allow the Company to pay expenses and retain a profit. Under the terms of the contract, the Company was allowed an expense and profit allowance of 12 1/2% during 1977, 10 1/2% during 1978 and 8 1/2% during 1979. In January 1979, the Company and Gold Kist agreed, effective in 1980, to adopt an Administrative Services Only (ASO)plan for accident and health insurance and to reduce the expense and profit allowance to 5% on life insurance. Under the ASO plan, the Company will exclude all premiums and claims from the financial statements, not be responsible for the payment of premium taxes, and receive a service fee of 5% of claims paid. If the ASO plan and the lower expense and profit allowance had been in effect in 1978 and 1977, net earnings in each year would have been reduced by approximately $240,000.

The Company participates jointly with Cotton States Mutual and Gold Kist in a noncontributory pension plan. All regular salaried employees with at least one year of service are eligible to join the plan. Contributions to the plan amounted to $33,552 in 1978 and $27,150 in 1977. The Company's policy is to fund pension cost accrued which is composed of normal costs and prior service costs, which are amortized over 10 years.

Certain general expenses initially paid by Cotton States Mutual are allocated to the Company. These expenses, such as salaries, advertising, rents, postage, telephone, etc., represent the Company's share of expenses incurred by Cotton States Mutual for the benefit of both companies and are allocated generally on the basis of each company's premium income. Expenses allocated to Cotton States Life amounted to $759,686 in 1978 and $609,432 in 1977. During 1978 and 1977, Cotton States Mutual paid premiums of $214,578 and $269,396, respectively, to the Company on group policies subject to a 15% retention.

Included in other invested assets at December 31, 1978 and 1977 is a $130,000 capital note issued by Gold Kist. The premium amounts due from Gold Kist and Cotton States Mutual are included in premiums receivable and are summarized below:

	December 31	
	1978	1977
Gold Kist	$505,078	176,039
Cotton States Mutual	16,659	90,760

MOTOR CLUB OF AMERICA

Management Agreement:

MCA is party to a management agreement with its subsidiaries under which MCA agrees to perform various administrative and operating services, pay operating expenses, and collect fees due to MCAIC and its subsidiaries from agents, insureds and others. In return for such services, the subsidiaries pay MCA management fees at varying rates up to 18 1/2% of revenues. Garden State also pays MCA a contingent commission on the profits from accident and health business of the prior year. In December, 1978, Garden State purchased data processing equipment which will be used by MCA and affiliated companies. The management fee charged to Garden State will be adjusted to compensate Garden State for the use of this equipment.

Taxation Arrangement:

MCA and its subsidiaries, including MCAIC and its subsidiaries other than its life insurance subsidiary, file consoldated Federal income tax returns. Federal income tax credits and expenses have been allocated between the companies on a basis determined as if the companies had filed separate returns; settlement between the companies will be made on such basis. All participants in a consolidated return are severally liable for the full amount of the tax, including interest and penalties, if any, which may be assessed against the group.

Sale of Life Insurance Policies:

MCA and its motor club subsidiary provide most Motor Club members with a Personal Accident Policy ("PAP") as part of the Motor Club membership. Such policies are provided through a Group Personal Accident Policy written by Garden State. During 1978 and 1977 the net PAP premium received by Garden State was approximately $319,000 and $308,000 respectively.

Lease Agreement:

Land and an office building owned by MCAIC is leased to Motor Club of America, at annual rentals of $210,000 to November 30, 1987.

Pension Plan:

The MCA pension plan is being funded through Garden State.

Sale of Securities:

During 1977, MCA sold municipal bonds to MCAIC having an amortized cost of approximately $4,299,000 and a market value of approximately $4,172,000. The bonds were sold at book value and no gain or loss was recognized on the transaction.

Sale of Preferred Stock in MCAIC:

During 1977, MCA and its noninsurance subsidiaries purchased 6,250 shares of MCAIC preferred stock for $6,250,000 (issue price: $1,000 per share). Dividends paid to MCA and its noninsurance subsidiaries amounted to $447,765 (1978) and $90,248 (1977) were eliminated in consolidation. In March, 1979, MCA (parent) and a noninsurance subsidiary purchased 2,500 shares of MCAIC preferred stock for $2,500,000 (issue price: $1,000 per share).

Sale of Investment in an Unconsolidated Affiliate:

During 1978, Garden State sold 250,000 shares of the capital stock of Moderncare Center of America, Inc., an unconsolidated affiliate, to MCA for $30,794, the underlying book equity.

EXAMPLES Footnote disclosure of participating business with GAAP earnings restrictions

EQUITABLE OF IOWA COMPANIES

For purpose of determining the earnings for participating policyholders, Equitable Life maintains separate accounts by class of business and allocates to such accounts specific items of income and expense directly attributable to each class of business. In addition, equitable proportions of general income and expense are allocated to each class of business. An amount up to ten percent of the increase in statutory participating surplus before policyholders' dividends may be transferred to the stockholders' account. Equity attributable to participating policyholders has been adjusted to reflect the conversion to generally accepted accounting principles and these adjustments are reflected in the transfer.

NATIONWIDE CORPORATION

In accordance with the requirements of the New York statutes, the Company has agreed with the Superintendent of Insurance of that state that so long as participating policies and contracts are held by residents of New York, no profits on participating policies and contracts in excess of the larger of (a) ten percent of such profits or (b) fifty cents per year per thousand dollars of participating life insurance in force, exclusive of group term, at the year-end shall inure to the benefit of the shareholders. Such New York statutes further provide that so long as such agreement is in effect, such excess of profits shall be exhibited as "participating policyholders' surplus" in annual statements filed with the Superintendent and shall be used only for the payment or apportionment of dividends to participating policyholders at least to the extent required by statute or for the purpose of making up any loss on participating policies.

In the opinion of counsel for the Company, with the concurring opinion of New York counsel as to New York law, the ultimate ownership of the entire surplus, however classified, of the Company resides in the shareholders, subject to the usual requirements under state laws and regulations that certain deposits, reserves and minimum surplus be maintained for the protection of the policyholders until all policy contracts are discharged.

Based on the opinions of counsel with respect to the ownership of its surplus, the Company is of the opinion that the earnings attributable to participating policies in excess of the amounts paid as dividends to policyholders belong to the shareholders rather than the policyholders, and such earnings are so treated by the Company.

The amount of shareholders' equity other than capital shares was $181,068,000 and $154,364,000 at December 31, 1978 and 1977, respectively. The amount thereof not presently available for dividends to shareholders due to the New York restrictions and to adjustments relating to generally accepted accounting principles, was approximately $164,342,000 and $142,289,000, respectively, an increase in restricted shareholders' equity of $22,053,000 and $11,439,000 for 1978 and 1977, respectively.

ST. PAUL COMPANIES, INC.

If a life insurance policy pays dividends, it is considered a "participating policy." Owners of participating policies are entitled to an 80-90% share in net earnings that relate to their policies.

In 1978, participating policies represented approximately 27% of individual life insurance premiums earned and were equal to 12% of individual life insurance in force. In 1977, these figures were 31% and 14% respectively.

When we computed our unrealized appreciation on securities held at the end of 1978, we deducted as a reserve an amount representing the share that would go to owners of participating policies and included it in our liabilities. Thus, this amount is not reflected in our shareholder equity.

Similarly, we have deducted from net income the share of net earnings that is to go to owners of participating policies.

EXAMPLES Other footnote disclosures

AMERICAN FAMILY CORPORATION

The Company uses the actuarial factor method with interest to calculate the unamortized balance of deferred policy acquisition costs. This method does not identify the amounts of the individual components of acquisition costs deferred. However, based on the assumptions underlying the actuarial factors, approximately 70% of the acquisition costs deferred are commissions. Commissions not deferred are included in other operating expenses and represent approximately 55% and 60% of total other operating expenses in 1978 and 1977, respectively.

AMERICAN FIDELITY LIFE INSURANCE COMPANY

The American Institute of Certified Public Accountants Statement of Position 1976-3, Accounting Practices for Certain Employee Stock Ownership Plans, provides that indebtedness of an ESOP should be reflected in the financial statements of the sponsor if the sponsor has either guaranteed such debt or has an obligation to make contributions to the ESOP sufficient to meet debt service requirements. The Company's ESOP provides that the annual contribution shall never be less than the amount required to ". . . enable the plan to discharge its current obligations." The Company believes that the requirement to enable the plan to discharge its current obligations is significantly different from the sponsor either guaranteeing the debt or having an obligation to make contributions sufficient to meet debt service requirements. However, the staff of the Securities and Exchange Commission has required that the Company reflect the indebtedness of its ESOP in its financial statements with a corresponding charge to stockholders' equity (see note 12).

CNA FINANCIAL CORPORATION

CNA announced in 1974 that it did not intend to provide further support to Larwin, an unconsolidated affiliate, and that it had written off its entire investment in and commitments to Larwin. In December 1977, Larwin's then remaining indebtedness to its creditor banks and noteholders, aggregating approximately $75,000,000, was converted into two notes. On December 29, 1977, CNA purchased these notes for an aggregate consideration of $43,500,000 which was supported by the estimated fair value of the underlying net assets of Larwin at that date.

Earnings of Larwin were not recognized by CNA from October 1, 1974 to December 31, 1977. In 1978, Larwin's earnings in the amount of $13,848,000 are included as equity in operating income of unconsolidated affiliates.

CHASE NATIONAL LIFE INSURANCE COMPANY

The replacement cost information presented in this supplemental note to the financial statements is furnished pursuant to Rule 3-17 of Regulation S-X. However, the SEC cautioned investors and analysts against "simplistic use" of replacement cost information. In issuing that warning, the SEC stated: "The commission intentionally determined not to require the disclosure of the effect of net income of calculating cost of sales and depreciation on a current replacement cost basis, both because there are substantial theoretical problems in determining an income effect and because it did not believe that users should be encouraged to convert the data into a single revised net income figure. The data is not designed to be a simple road map to the determination of 'true income.' In addition, investors must understand that due to the subjective judgements and the many different specific factual circumstances involved, the data will not be fully comparable among companies and will be subject to errors of estimation."

The replacement cost information given herein is with respect to buildings and equipment owned by the Company and briefly described as follows:

> The Home Office Building for the Company is located at 550 St. Louis Street in Springfield, Missouri, and is of brick and vonco covered cement block construction, and contains 12,256 square feet of floor space. 1,864 square feet of this Home Office building is leased and occupied by such tentant.
>
> Three smaller buildings of brick construction, containing approximately 2,000 square feet (total) of floor space lie directly behind the Home Office Building in Springfield, Missouri, facing on McDaniel Street. The larger of the three buildings is leased to a cafe operator, and the two smaller buildings are used for storage for the Company.
>
> A 1975 Navajo Chieftain airplane is owned by the Company, and has complete radar and electronic equipment for all-weather flying. A large segment of the Company's sales territories do not have service by commercial airlines, and this airplane is used for transportation to and from meetings and other company operations.
>
> The Company also has complete sales training equipment, consisting of video cameras with various video cassette recorders and play-back units and screens. The Company is extending production of an expanded sales training program of its own design for training of agents.
>
> Remaining equipment owned by the company consists of office furniture, files, typewriters, calculators, adding machines, and various other equipment generally applicable in an office.

The replacement cost information herein given is based on the hypothetical assumption that the Company would replace its entire buildings and equipment at the end of its fiscal year, whether or not such "instant" replacement were physically possible.

This information should not be interpreted to indicate that the Company actually has present plans to replace any of its buildings or equipment. Decisions concerning replacement will be made in the light of economic, regulatory and competitive conditions existing on the dates such determinations are based.

The replacement cost data presented herein is not necessarily representative of the "current value" of existing building and equipment, nor should it be construed to represent additional book value for the Company's stockholders.

The replacement cost for buildings was estimated by applying current estimated construction cost to obtain equivalent floor space.

The replacement cost for the 1975 Navajo Chieftain airplane is estimated on the basis of current market prices.

Where practicable, the replacement costs of office furniture and equipment and video training equipment was estimated on the basis of current market prices for equipment of equivalent efficiency.

Depreciation based on the replacement costs has been estimated on a ratio of the total historical cost to the total replacement cost, and using the same estimates of depreciation utilized in preparing the historical cost financial statements.

Replacement cost data at December 31, 1978 and for the year then ended follows:

	Replacement Cost	Historical Cost
Property and equipment		
Buildings	$428,347	$338,563
Airplane	170,000	148,679
Video training equipment	28,000	22,483
Office furniture and equipment	135,492	81,677
Total property and equipment	$761,839	$591,402
Accumulated depreciation	271,115	210,462
Net property and equipment	$490,724	$380,940
1978 investment expenses, including $12,909 of replacement cost depreciation and $10,203 of historical cost depreciation	$ 93,585	$ 90,879
Other 1978 depreciation (included in general insurance expense)	$ 49,920	$ 37,847

INVESTORS HERITAGE LIFE INSURANCE COMPANY

In December, 1978, the Company incurred a loss estimated at $460,000, due to a major flood of the Kentucky River at the Company's home office. This estimate of loss represents the damage to the Company's home office building, the net book value of its computer and furniture and equipment destroyed by the flood, and all other related costs. Such amount, less applicable Federal income tax benefit of approximately $125,000, has been presented as an extraordinary loss from flood in the accompanying statement of income for the year ended December 31, 1978.

GEORGE WASHINGTON CORPORATION

Insurance companies are required to file annual statements and supporting data in the state in which they are incorporated and in all other jurisdictions where such companies maintain licenses to sell insurance. Insurance companies are generally subject to periodic examinations by insurance regulatory authorities every three years. Because of the financial difficulties encountered by the Company. Insurance regulatory authorities have recently conducted examinations for the years 1975 to 1977 of the Company's insurance subsidiaries. The examinations are expected to cause a significant reduction in the capital and surplus of one of the insurance subsidiaries (the subsidiaries capital and surplus will not be impaired) but will have no effect on the GAAP financial statements. The next tri-annual examination is currently scheduled to cover the three-year period ending December 31, 1980.

MANHATTAN LIFE CORPORATION

The payment of cash dividends by the Corporation to its stockholders is principally dependent upon the amount of The Manhattan Life Insurance Company's statutory surplus available for distribution to the Corporation as well as the amount of Northern National Life Insurance Company's statutory surplus available for distribution to the Corporation. As provided in The Manhattan Life Insurance Company's Charter in any year in which dividends are distributed to policyholders the shareholders (Corporation) are entitled to a specified rate of return (referred to therein and herein as interest) on their shares. This interest amounts in the aggregate to $7,000 plus an amount equal to 3% of the par value ($6,683,000) of the outstanding shares in excess of $400,000. In addition, the shareholders are entitled to $1 for each $7 paid as dividends to policyholders. The shareholders' share of earnings may be paid in cash, subject to the approval of the Superintendent of Insurance of the State of New York, or by the issuance of additional shares (taken at the par value thereof) or may be set aside in a reserve for shareholders, in each case in whole or in part as determined by the Board of Directors. Distributions to The Manhattan Life Insurance Company's shareholders were as follows:

	1978	1977
	(In Thousands)	
Dividends to shareholders(1/7 of dividends to policyholders)	$ 1,705	$ 1,602
Interest on guarantee capital	195	197
	$ 1,900	$ 1,799
Amounts applicable to:		
The Corporation	$ 1,900	$ 1,780
Minority Interest	—	19
	$ 1,900	$ 1,799

The extent to which (1) "earnings attributable to shareholders" of The Manhattan Life Insurance Company included in net income of the Corporation and (2) "additions to surplus in excess of net income" which are not distributed and are credited to surplus, are available for future distribution to shareholders and policyholders is not clear.

The laws applicable to The Manhattan Life Insurance Company do not provide for its voluntary liquidation or dissolution; dissolution or liquidation can occur only under the supervision of the New York Superintendent of Insurance in the event of the insolvency or under certain other conditions specified in Article XVI of the New York Insurance Law. It is highly unlikely that the Company would be liquidated or dissolved unless it were insolvent, in which event, its entire assets would be used to satisfy its liabilities on policies and other claims of creditors and no surplus would remain for distribution. A partial distribution from the surplus is virtually as unlikely as a distribution of surplus on liquidation since in Management's judgment retention of the entire surplus is necessary as a matter of sound business judgement to preserve the strength of the Company's financial position in view of its large and rapidly growing volume of insurance business in force; in any event, Management has no disposition to seek to effect any partial distribution of surplus.

The Manhattan Life Insurance Company, which writes insurance, other than reinsurance, only on a participating basis, is the only existing life insurance company in New York which has authorized and outstanding Guarantee Capital shares. Neither applicable New York State Law nor the Company's Charter contains express provisions establishing the extent of the interest of the holders of the Guarantee Capital shares in the surplus of the Company and there has never been a judicial determination of the extent of such interest. Accordingly, in the opinion of counsel to the Company, no unqualified legal opinion can be rendered as to the degree, if any, to which the holders of the Guarantee Capital shares would be entitled to participate in any current or liquidating distribution of surplus. However in view of such counsel, if notwithstanding the foregoing considerations there should occur a liquidation or other winding-up of the Company's business in which the assets of the Insurance Company exceeded its liabilities on policies and the claims of other creditors, or if there should occur a partial distribution of surplus in the absence of such a liquidation or winding-up, although there are reasonable arguments which could be made to the effect that the entire amount of such surplus would be distributable solely to the policyholders or solely to the shareholders, the more likely outcome if the question should be litigated is that it would be held that one-eighth of such amount would be distributable to shareholders and seven-eighths to policyholders.

MUTUAL LIFE INSURANCE COMPANY OF NEW YORK

During 1977, the Board of Trustees approved the establishment of a charitable trust for a minimum of ten years and the Company transferred $6,140,000 to such trust. Under provisions of the trust agreement, income generated from trust assets will be utilized for charitable purposes. Upon expiration of the initial term of the trust, underlying trust assets revert to the Company; however, the trust's life may be extended at the Company's discretion.

NEW YORK LIFE INSURANCE COMPANY

Other adjustments in the 1978 Summary of Operations and Contingency Reserves include principally, the effect on contingency reserves of: (1) $28,029,553 increase resulting from a change in the valuation basis for the Employees' Retirement Program, (2) $24,507,595 decrease reflecting changes in benefits under the Employees' Retirement Program, and (3) $9,600,000 increase due to adjustments to annuity reserves as of December 31, 1977.

PRUDENTIAL INSURANCE COMPANY OF AMERICA

The financial statements have been prepared in accordance with accounting practices prescribed or permitted by insurance regulatory authorities except as modified by the inclusion in application of income of certain items which have the net effect of decreasing application of income by $72 million in 1978 and increasing application of income by $84 million in 1977 and which otherwise would have been shown as changes in the margin for protection of policyowners. Such modifications include:

	1978 (In Millions)	1977
Adjustments to policy and contract reserves due to changes in valuation bases	$ 12	$140
Contribution to Company pension plan for prior service costs	(48)	(29)
Federal income tax and interest thereon applicable to prior years	(5)	42
Funding of The Prudential Foundation	--	(50)
Other	(31)	(19)
	$(72)	$ 84

PIEDMONT MANAGEMENT COMPANY

In 1978, the Company announced its intent to sell its life insurance and life insurance/retail securities marketing subsidiary companies. In December 1978, the Company also sold its real estate investment subsidiary. In accordance with the provisions of Accounting Principles Board Opinion No. 30, the operations of these subsidiaries have been accorded treatment as, "discontinued operations" in the Company's consolidated financial statements.

In conjunction with the Company's decision to discontinue segments of its operations, certain amounts attributable to such discontinued business segments in prior years, as previously reported, have been reclassified in the accompanying financial statements to be reflected in a manner consistent with the current year's presentation.

A summary of the components of the assets and liabilities attributable to the Company's discontinued operations follows:

	1978	1977
Assets:		
Pacific Fidelity Life Insurance Company	$60,694,732	$57,821,731
Life insurance/retail securities marketing operations	250,000	1,420,321
Piedmont Properties, Inc.(real estate investments)	--	507,235
	60,944,732	59,749,287
Consolidating and eliminating adjustments	52,017	(89,080)
Assets as shown in the consolidated balance sheets	$60,996,749	$59,660,207
Liabilities:		
Pacific Fidelity Life Insurance Company	$43,484,427	$29,260,559
Life insurance/retail securities marketing operations	--	174,434
Piedmont Properties, Inc.(real estate investments)	--	537
	43,484,427	39,435,530
Consolidating and eliminating adjustments	(120,449)	27,584
Liabilities as shown in the consolidated balance sheets	$43,363,978	$39,463,114

A summary of the revenues attributable to discontinued operations for the years ended December 31, 1978 and 1977 follows:

	1978	1977
Pacific Fidelity Life Insurance Company	$14,229,530	$16,415,516
Life insurance/retail securities marketing operations	3,077,943	3,506,991
Piedmont Properties, Inc.(real estate investments)	39,940	27,174
	$17,347,413	$19,949,681

A summary of the components of the Company's operating results attributable to its discontinued operations for the years ended December 31, 1978 and 1977 follows:

	1978	1977
Pacific Fidelity Life Insurance Company:		
Loss from operations	$ 518,094	$ 1,253,405
Provision for loss on sale	4,712,945	--
	5,231,039	1,253,405
Life insurance/retail securities marketing operations:		
Loss from operations	419,280	451,114
Provision for loss on sale	1,106,657	--
	1,525,937	451,114
Piedmont Properties, Inc.:		
Loss (income) from operations	29,726	15,305
Gain on sale	(109,997)	--
	(80,271)	15,305
Loss from discontinued operations	6,676,705	1,719,824
Federal income tax benefit	3,447,592	481,590
Net loss from discontinued operations	$3,229,113	$1,238,234

Section D

Business Segments

FASB Statement No. 14 "Financial Reporting for Segments of a Business Enterprise" issued in December 1976, requires that the annual financial statements of all business enterprises prepared in conformity with GAAP include information related to operations in different industries, foreign operations, export sales, and major customers.

Required disclosures include information regarding revenues, profitability, and assets by industry and for foreign and domestic operations.

In December 1977, the SEC issued Regulations S-K which, for the most part, conformed SEC line of business reporting requirements to the definitions and guidelines of Statement No. 14. The new SEC rules were effective for filing with fiscal years ending after March 15, 1978; however, because of the earlier effective date of Statement No. 14, the S-K disclosures of revenues and profit by line of business were also required for fiscal years beginning after December 15, 1976.

The application of Statement No. 14 to the insurance industry has caused considerable debate. Many companies believe that life/health insurance and property/casualty insurance each comprise one industry segment. Others, including certain members of the SEC staff, believe that life/health and property/casualty insurance comprise more than one industry segment, depending upon the individual fatual circumstances.

The AICPA Insurance Companies Committee wrote the SEC in January 1978, and stated that the Committee believed that "enterprises engaged in the business of insurance would generally present industry segment information for two industry segments, a life insurance segment, and a property/liability insurance segment."

In March 1978, however, the SEC issued ASR No. 244, which stated that the "Commission has instructed its staff to carefully review the industry segments for which registrants report financial information to determine whether their segmentation is consistent with Statement No. 14." And, "companies which are determned not to have made acceptable industry segment disclosures generally will be required to amend their filings with theCommission and to communicate this additional information to shareholders in some appropriate manner."

This release also stated the word "industry" is not key to identifying industry segments. Hence, companies previously thought to be in a single industry (e.g., insurance, finance, electronics, and chemicals) are still required to challenge whether their operations should be disaggregated.

In addition, the release gave an example of how the staff believes these rules ought to be applied to the property/liability insurance industry:

> Various types of insurance coverage (e.g., workers' compensation, automobile, homeowner's, commercial fire, other commercial liability, and professional malpractice coverage) were determined not be sufficiently similar to be grouped together as one industry segment. Therefore, property/casualty insurance companies will generally have more than one industry segment. Those segments may be some grouping of these different insurance products.

Although the SEC did not specifically address the business segment issue for life insurance companies in ASR No. 244, its review of segment disclosures for life insurance companies resulted in numerous letters from the SEC staff to registrants. These letters generally asked for additional segment information, future disaggregation of segment disclosures, or for support for conclusions drawn.

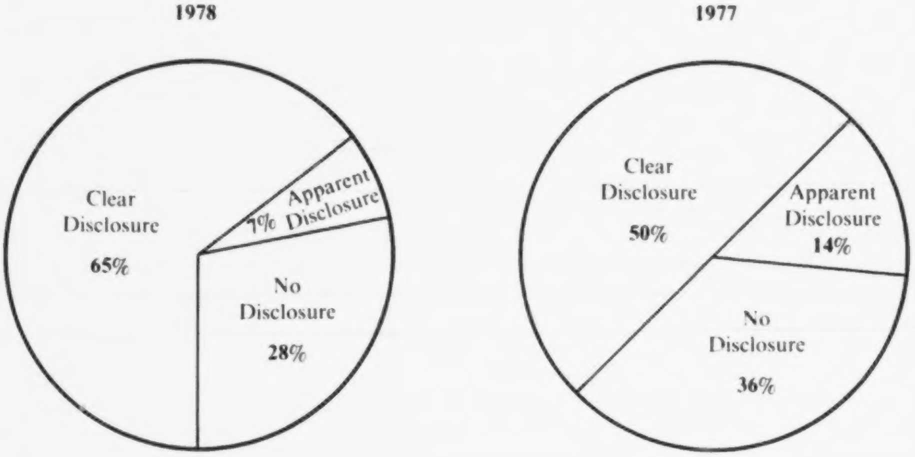
In an attempt to resolve the segment reporting questions, the Insurance Companies Committee requested from the FASB on March 21, 1978 an interpretation of Statement No. 14. The interpretation would be intended to clarify the meaning of product line, industry line, and industry segment definitions, as such definitions are used in the Statement. As of the current date, the FASB has not acted on this request.

As shown in Figure D-1, segment disclosures in 1978 annual reports were more clearly defined or designated than in 1977. The location of business segment disclosures is summarized in Figure D-2.

Also, there was a considerable increase in the number and types of segments reported by GAAP stock companies, as shown in Figure D-3. The extent to which certain segment disclosures required by either the FASB or SEC were included in 1978 annual reports is shown in Figure D-4.

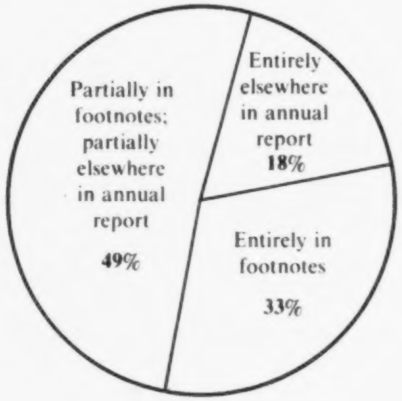
Examples of business segment disclosure, which varied from a statement as to being in one industry — life and health insurance — to disclosure by line of business identifying specific types of products comprising a line of business are found starting on page 34.

Figure D-1. Extent of Business Segment Disclosure



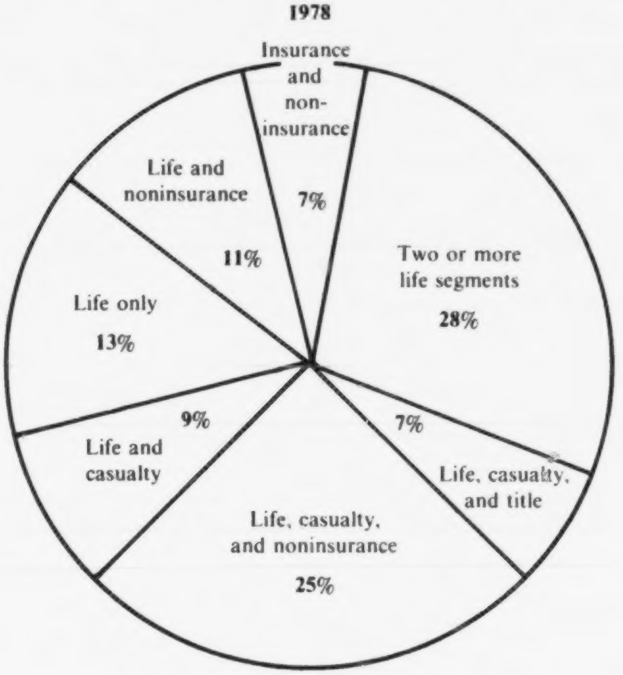
Based on 172 and 171 GAAP stock companies in 1978 and 1977, respectively.

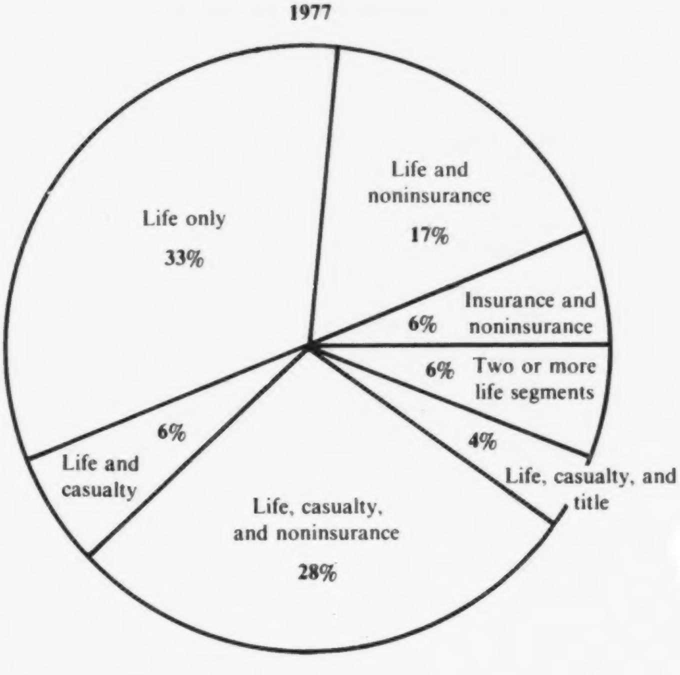
Figure D-2. Location of 1978 Business Segment Disclosure



Based on 122 GAAP stock companies with business segment disclosures.

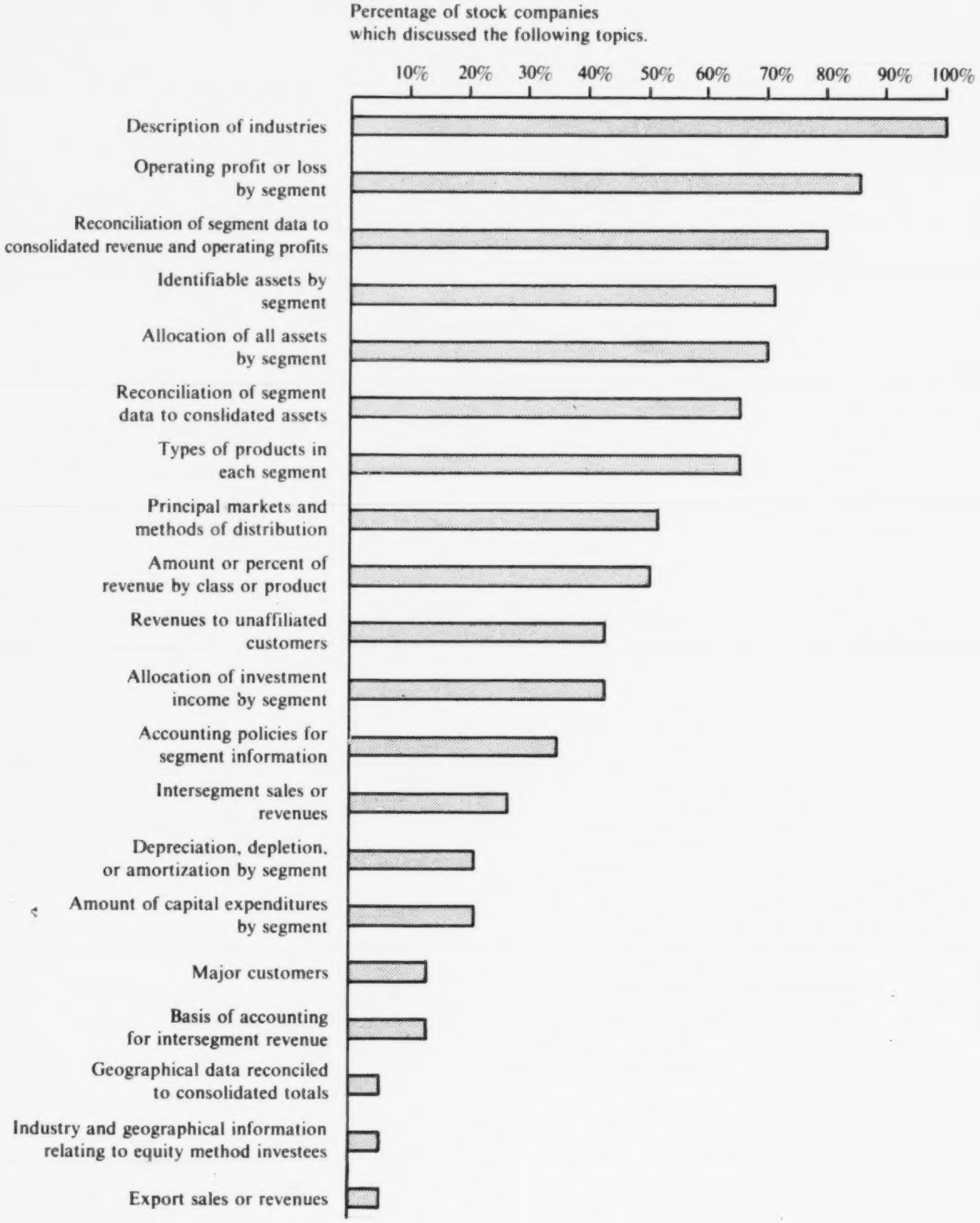
Figure D-3. Types of Business Segments Disclosed





Based on 122 and 109 GAAP stock companies in 1978 and 1977, respectively, with business segment disclosure.

Figure D-4. Selected Topics Discussed in Connection with Business Segment Disclosure



Based on 122 GAAP stock companies with business segment disclosure.

EXAMPLES Business segment disclosures

AETNA LIFE AND CASUALTY COMPANY

Summarized financial information for AEtna Life & Casualty's principal insurance operations is as follows:

	1978 (thousands)	1977
Revenue:		
Life, health and pensions:		
Group	$ 4,761,400	$ 4,028,568
Individual	814,688	747,875
Casualty-Property:		
Commercial	2,170,842	1,845,502
Personal	1,300,402	1,179,133
Other	406,372	327,636
Total revenue	$ 9,453,704	$ 8,128,714
Insurance operating earnings before federal income taxes:		
Life, health and pensions:		
Group	$ 153,193	$ 135,825
Individual	61,533	53,801
Casualty-Property:		
Commercial	283,402	246,714
Personal	119,850	100,959
Other	54,042	32,131
Total	672,020	569,430
Federal income taxes	174,902	168,063
Equity in earnings of diversified business division	20,657	16,552
Operating earnings	$ 517,775	$ 417,919
Assets:		
Life, health and pensions:		
Group	$13,061,206	$11,208,254
Individual	3,651,467	3,205,652
Casualty-Property:		
Commercial	3,129,538	2,657,337
Personal	1,223,088	1,117,289
Other	2,903,496	2,341,786
	23,968,795	20,530,318
Investments in diversified companies	299,395	276,016
Total assets	$24,268,190	$20,806,334

Investments, certain other assets and investment income are not individually identifiable by segment, and accordingly have been allocated by formula.

KENTUCKY CENTRAL LIFE INSURANCE COMPANY

The Company is a life insurance company and derives part of its revenue from the sale of accident and health (A&H) insurance. Investment income is allocated to each segment based upon the ratio of mean policy reserves for each segment to the total mean policy reserves. Revenue for each segment for 1978 and 1977 was: life, $79,825,783 and $70,997,414; A&H, $13,478,152 and $13,588,346. Income from operations for 1978 and 1977 was: life, $12,595,312 and $9,392,160; A&H, $965,838 and $65,568.

FIRST UNITED, INC.

The Company through its insurance subsidiary is principally engaged in the writing of ordinary whole life insurance and annuities. Both products are sold by independent insurance agents to individual insureds. During 1978, one independent insurance agent produced $635,935 of first year and renewal premiums which represented more than 10% of total premium income.

COLONIAL LIFE & ACCIDENT INSURANCE COMPANY

The Company is principally engaged in the sale and underwriting of accident, life and cancer insurance. As a result of the issuance of Accounting Series Release No. 244 relating to the determination of reportable industry segments by the Securities and Exchange Commission, additional information regarding product lines is being furnished.

	Year Ended December 31	
	1978	1977
Revenues:		
Accident	$54,904,733	$47,867,865
Life	11,971,141	9,760,492
Cancer	8,701,018	7,840,469
Investment income allocated to stockholders' equity	2,756,189	2,204,633
Total revenues	$78,333,081	$67,673,459
Operating Profit:		
Accident	$ 9,720,036	$ 6,488,171
Life	758,082	415,103
Cancer	737,230	1,270,753
Investment income allocated to stockholders' equity	2,756,189	2,204,633
Total operating income before Federal income taxes and realized gains on investments	$13,971,537	$10,378,660

Operating profit is total revenue less operating expenses.

Net investment income is allocated to the segments based on a 5 per cent rate related to reserves generated by each of the three insurance segments. The remaining net investment income is considered to be income applicable to the investment of capital and surplus funds and is shown above as revenues and operating profit from surplus investment.

NATIONAL SECURITY INSURANCE COMPANY

For statutory reporting purposes, the Company does not present certain information about the life/health and property/casualty industry segments of the enterprise. Such disclosure would be required by Financial Accounting Standard #14 "Financial Reporting for Segments of a Business Enterprise" for a company reporting in accordance with generally accepted accounting principles. This variance has no effect on reported net gain from operations or capital stock and surplus on a statutory basis.

NATIONAL LIBERTY CORPORATION

The Company primarily offers three major types of insurance products: life, accident and health, and annuities. These products are sold through agents and direct response marketing techniques. The contribution to total revenues and operating income before income taxes related to each of these business segments is as follows:

	Total Revenues (000 Omitted) 1978	1977
A&H		
Direct Response	$171,373	$143,070
Agency	6,788	5,490
Other	4,073	4,608
	182,234	153,168
Life		
Direct Response	35,586	23,213
Agency	15,103	12,394
Other	1,298	2,133
	51,987	37,740
Annuity		
Agency	4,623	6,100
Other	1,635	1,663
	6,258	7,763
Other segments	4,617	4,842
Total	$245,096	$203,513

	Operating Income Before Income Taxes (000 Omitted) 1978	1977
A&H		
Direct Response	$ 23,370	$ 14,648
Agency	(1,406)	(1,529)
Other	(362)	1,050
	21,602	14,169
Life		
Direct Response	4,678	5,666
Agency	(633)	(423)
Other	214	167
	4,259	5,410
Annuity		
Agency	(1,847)	(2,111)
Other	195	(80)
	(1,652)	(2,191)
Other segemnts	1,210	37
Total	$ 25,419	$ 17,425

All expenses of the Company have been allocated to its business segments. Net investment income has been allocated to the business segments in proportion to their related policy reserves.

Assets, including those specifically identifiable and reasonably allocable, are presented in the following table by business segment. Cash and invested assets have been allocated to business segments in the same manner as investment income.

	Assets (000 Omitted) 1978	1977
A&H		
Direct Response	$276,566	$241,440
Agency	9,008	7,321
Other	10,474	14,463
	296,048	263,224
Life		
Direct Response	65,015	37,564
Agency	49,294	39,075
Other	4,854	5,174
	119,163	81,813
Annuity		
Agency	9,279	6,846
Other	4,691	4,594
	13,970	11,440
Other segments	28,940	27,065
Assets not allocated (principally property and equipment)	17,670	18,863
Total	$475,791	$402,405

UNICOA CORPORATION

The Corporation and its subsidiaries are engaged principally in the business of selling life insurance and accident and health insurance. They are authorized to sell a portfolio of the regular forms of ordinary, industrial (commonly termed weekly premium), group life, individual annuities, group and personal accident and health and hospitalization insurance policies in the District of Columbia and all states except New York and Alaska.

Information on the Corporation's business segments for the years ended December 31, 1978 and 1977 is as follows:

	1978	1977
Premiums		
Life	$154,509,000	$149,456,000
Accident and health	125,541,000	119,620,000
Total Premiums	$280,050,000	$269,076,000
Operating Profit		
Life	$ 21,797,000	$ 15,453,000
Accident and health	23,762,000	1,990,000
Total Operating Profit	45,559,000	17,443,000
Unallocated investment income	13,094,000	10,781,000
Interest expense	(3,776,000)	(3,073,000)
General corporate expense	(767,000)	(1,529,000)
Income before Federal Income Taxes and Gain (Loss) on Sale of Investments	$ 54,110,000	$ 23,622,000

WASHINGTON NATIONAL CORPORATION

WNC's operations are primarily all of the insurance activities associated with life, annuity and health products, which represent one industry segment.

AMERICAN GUARANTY FINANCIAL CORPORATIONS

The Company operates primarily within the life insurance industry as shown in the following table:

	1978		1977	
	Revenues	Assets	Revenues	Assets
Insurance:				
Life insurance	$14,146,884		$12,485,871	
Accident and health	3,782,455		3,705,445	
Investment annuity	1,175,250		1,493,609	
Total insurance	19,104,589	$14,652,097*	17,684,925	$14,211,027*
Real estate	1,469,543	7,066,603	1,082,808	2,404,644
Other	1,036,123	5,923,775	1,193,706	5,681,399
Total	$21,610,255	27,642,475	$19,961,439	22,297,070
	Operating Gain (loss)		Operating Gain (loss)	
Insurance				
Life insurance	$ 952,556		$ 983,203	
Accident and health	(295,829)		(437,447)	
Investment annuity	989,091		884,299	
Real estate	620,144		328,325	
Other, primarily from leasing operations before interest expense of $438,090 and $402,317	648,241		943,590	
Total	2,914,203		2,701,970	
Investment income, net	4,406,594		3,529,290	
Corporate expenses	(2,390,096)		(2,369,205)	
Interest expense	(841,190)		(742,065)	
Gain before realized investment gains	$ 4,089,511		$ 3,119,990	
Cash and investments		52,594,254		52,465,821
Other, including loans to policyholders		7,985,371		6,665,374
		$88,222,100		$81,428,265

*In the opinion of the Company it is not feasible to reasonably allocate the assets related to the insurance segments and therefore they have been combined in the above table. In addition, see Note B related to assets physically held by custodian banks under the investment annuity program of the Company.

GLOBE LIFE AND ACCIDENT INSURANCE COMPANY

Summarized financial data for various product lines for the year ended December 31, 1978 is as follows:

	1978		1977	
	Amount	Percent of total	Amount	Percent of Total
	(in thousands of dollars)			
Total revenue (1)				
Life insurance	$ 35,340	38.8	$ 31,174	38.8
Accident and health insurance	46,217	50.7	41,456	51.6
Credit insurance	8,997	9.9	7,333	9.1
Non-allocable expenses	592	0.6	416	0.5
	$ 91,146	100.0	$ 80,379	100.0
Earnings before income taxes equity in earnings of unconsolidate affiliate, and realized investment gains				
Life insurance	$ 14,441	76.6	$ 11,895	72.9
Accident and health insurance	15,618	82.9	14,670	89.8
Credit insurance	2,345	12.4	1,604	9.8
Non-allocable expenses	(13,557)	(71.9)	(11,839)	(72.5)
	$ 18,847	100.0	$ 16,330	100.0

(1) Includes net investment income which was allocated based on the year-end policy benefit reserves.

AMERICAN HERITAGE LIFE INVESTMENT CORPORATION

The Company operates in three significant industry segments--Ordinary, Group and Credit. Ordinary operations primarily provide whole life, endowment and term life insurance contracts to individuals. Annuity and accident and health contracts are also written in this operation. Group operations write life and accident and health insurance principally for employer-employee groups and trade or similar associations. Credit operations provide life and disability income insurance coverages to debtors through their creditors.

Total income includes net investment income which is allocated to the segments based on required reserves for future policy benefits.

Operating profit, which is total income less certain operating expenses, excludes general corporate expenses, certain interest expense, income taxes and realized investment losses.

A majority of the Company's assets consists of investments and cash which are not identified with a specific operation. Accordingly, it is not meaningful to disaggregate assets, capital expenditures, and depreciation by industry segment.

Total income and operating profit for the years ended December 31, 1978 and 1977 for each industry segment, reconciled to consolidated total income and consolidated earnings from operations before income taxes for such years, are as follows:

	Industry Segments			Non-Segmented Operations	Eliminations	Consolidated
	Ordinary	Group	Credit			
December 31, 1978:						
Total income:						
From unaffiliated customers	$26,584,825	58,523,972	26,885,203	1,046,335	--	113,040,335
Intercompany	288,779	84,297	67,808	798,321	(1,239,205)	--
	$26,873,604	58,608,269	26,953,011	1,844,656	(1,239,205)	113,040,335
Operating profit	$ 5,437,493	1,232,213	351,068	653,044	(547,367)	7,126,451
General corporate expenses						(163,864)
Interest expense						(237,112)
Earnings from operations before income taxes						$ 6,725,475
December 31, 1977:						
Total income:						
From unaffiliated customers	$23,826,715	55,662,563	20,446,446	996,116	--	100,931,840
Intercompany	214,791	56,801	50,772	484,586	(806,950)	--
	$24,041,506	55,719,364	20,497,218	1,480,702	(806,950)	100,931,840
Operating profit	$ 4,957,673	862,083	388,317	435,509	(397,400)	6,246,182
General corporate expenses						(234,319)
Interest expense						(216,755)
Earnings from operations before income taxes						$ 5,795,108

Operating profits of industry segments for 1977 have been restated to deduct intercompany management fees. In addition, certain investment income for 1977, which was previously credited solely to ordinary operations, has been allocated to all industry segments.

Certain directors of the Company are also directors of a group insurance contract holder. Premiums derived from such contract represent 13.3% in 1978 (10.7% in 1977) of the Company's total income. Coverage under the contract is on a cost-plus basis whereby premiums are defined as total life and health claims plus a charge for administrative expense.

AMERICAN NATIONAL FINANCIAL CORPORATION

The Company operates primarily in four segments (lines of business) within the life insurance industry as shown in the following table.

Identifiable commissions and expenses are charged directly to the appropriate line of business. The remaining expenses are allocated to the lines based primarily on commissions within the respective lines.

Net investment income is allocated to capital and surplus and the insurance lines in proportion to the funds developed by each. The funds developed are assumed to be equal to the net liabilities (future policy benefits and other policyholders' funds) for the insurance lines and equal to stockholders' equity plus deferred income taxes for capital and surplus.

Identifiable assets have been shown in the table for each line of business. All other assets have been allocated on the same basis as net investment income.

The following table summarizes the premiums and other revenue, gain (loss) from operations before applicable income taxes and other items and assets by line of business for the years ended December 31, 1978, and 1977, (in thousands):

1978 Line of Business	Premiums and Other Revenue	Gain (Loss) Before Applicable Income Taxes and Other Items	Assets
Individual life insurance	$372,722	$ 40,063	$1,502,613
Individual accident and health insurance	43,264	1,304	45,585
Group insurance	101,696	2,249	111,125
Credit insurance	15,674	1,927	21,512
Total insurance lines	$533,356	$ 45,543	$1,680,835
Capital and surplus	51,995	51,865	870,450
	$585,351	$ 97,408	$2,551,285

1977 Line of Business	Premiums and Other Revenue	Gain (Loss) Before Applicable Income Taxes and Other Items	Assets
Individual life insurance	$345,021	$ 30,273	$1,452,713
Individual accident and health insurance	41,216	1,774	44,985
Group insurance	97,733	(1,132)	91,014
Credit insurance	16,007	2,294	30,662
Total insurance lines	$499,977	$ 33,209	$1,619,374
Capital and surplus	42,144	42,039	722,116
	$542,121	$ 75,248	$2,341,490

TRANSPORT LIFE INSURANCE COMPANY

The following presents total revenues and operating income for the Company's four product line groups. The Company charges each product line group with all expenses including related income taxes.

	Thousands of dollars Individual		Group		
	Life	Accident and Health	Life	Accident and Health	Consolidated Total
1978					
Revenues	$21,629	$8,590	$23,017	$19,908	$73,144
Operating Income	$ 2,438	$1,352	$ 1,591	$ 641	$ 6,022
1977					
Revenues	$18,945	$6,634	$19,112	$16,758	$61,449
Operating Income	$ 1,973	$1,032	$ 1,292	$ 565	$ 4,862

Most assets have no product line identity and, as required by state law, all assets are available for the payment of any policyholder claims. Accordingly, assets are not reported by product line groups.

COMBINED INSURANCE COMPANY OF AMERICA

Combined operated in six foreign locations during 1978 and 1977. Each single foreign location accounted for less than 10 percent of revenue earned, income before tax and realized investment gains or losses, and total assets.

Financial information reflecting Combined's operations in the United States and in foreign locations is as follows:

(000 Omitted)	Year ended December 31, 1978		
	United States	Foreign	Total
Total revenue earned	$505,663	$ 93,206	$ 598,869
Income before income tax and realized investment gains	84,315	12,587	96,902
Total assets	887,612	127,545	1,015,157
	Year ended December 31, 1977		
	United States	Foreign	Total
Total revenue earned	$430,939	$ 80,862	$511,801
Income before income tax and realized investment gains	71,019	9,905	80,924
Total assets	762,693	124,365	887,058

Combined's consolidated results for the years 1978 and 1977 in terms of principal insurance products are as follows:

(000 Omitted)	Year Ended December 31, 1978			
	Direct			
	Life	Accident & Health	All Other	Total
Total revenue earned	$105,075	$458,962	$34,832	$598,869
Income before income tax and realized investment gains	10,607	84,966	1,329	96,902
	Year Ended December 31, 1977			
	Direct			
	Life	Accident & Health	All Other	Total
Total revenue earned	$92,319	$397,573	$21,909	$511,801
Income before income tax and realized investment gains	11,586	68,398	940	80,924

The above results by principal insurance products include allocations of investment income and certain expense elements on bases considered reasonable under the circumstances. It should be understood that other acceptable methods of allocation might well produce different results.

PREFERRED RISK LIFE INSURANCE COMPANY
(Notes to Financial Statements)

Information for business segments for the years 1978 and 1977 appear on page 7 of this report.

(Text)

The Company sells predominately individual ordinary life insurance policies, but obtains approximately 15% of its revenues from individual accident and health policies. Revenues and pre-tax net income for these segments are as follows:

	1978		1977		1976		1975		1974	
	(Thousands of Dollars)									
	Life	A&H	Life	A&H	Life	A&H	Life	A&H	Life	A&H
Revenues	$12,835	$2,187	$10,413	$1,891	$8,899	$1,694	$7,816	$1,367	$7,017	$1,145
Income before taxes & net realized losses on investments	4,003	388	3,081	329	2,935	76	2,543	22	2,056	89

MONUMENTAL CORPORATION

The following is information about the Company's continuing operations in different industry segments for the years ended December 31, 1978 and 1977 (dollars in thousands):

	Year Ended December 31, 1978					
	Life Insurance					
	Individual	Credit	Group	Total	Other	Consolidated
Operating Revenues	$121,730	$9,702	$14,729	$146,161	$ 1,482	$147,643
Operating Earnings before income taxes	29,524	1,816	(139)	31,201	(1,292)	29,909
Depreciation and Amortization				15,264(1)	144	15,408
Capital Expenditures				3,930(2)	1,115	5,045
Identifiable assets at December 31, 1978				880,062	29,742	909,804

(1) Includes $14,177 Amortization of Deferred Policy Acquisition Costs, of which $10,620 pertains to Individual Insurance, $3,486 pertains to Credit Insurance, and $71 pertains to Group Insurance. Depreciation is not significant.

(2) These amounts are not identifiable by industry segment.

	Year Ended December 31, 1977					
	Life Insurance					
	Individual	Credit	Group	Total	Other	Consolidated
Operating Revenues	$113,072	$6,588	$16,227	$135,887	$ 572	$ 136,459
Operating Earnings before income taxes	26,801	1,158	519	28,478	(1,745)	26,733
Depreciation and Amortization				13,797(1)	6	13,803
Capital Expenditures				1,432(2)	66	1,498
Identifiable assets at December 31, 1977				815,837(2)	384,979(3)	1,200,816

(1) Includes $12,961 Amortization of Deferred Policy Acquisition Costs, of which $10,511 pertains to Individual Insurance, $2,390 pertains to Credit Insurance, and $60 pertains to Group Insurance. Depreciation is not significant.

(2) These amounts are not identifiable by industry segment.

(3) Includes $383,360 of assets of Discontinued Operations which are reflected in the Consolidated Balance Sheet as of December 31, 1977.

NLT CORPORATION

	1978	1977	1976	1975	1974
	(Dollars in Thousands)				
Revenue:					
Life Insurance Industry Segment by Product Line:					
Life insurance:					
Ordinary life	$343,714	$314,982	$287,285	$248,129	$223,161
Industrial life	134,607	134,838	136,294	136,144	139,378
Other	29,804	24,677	19,226	17,139	14,838
Accident and health insurance:					
Individual	61,108	60,279	54,973	51,901	51,887
Other	23,281	22,703	16,434	14,610	17,189
	592,514	557,479	514,212	467,923	446,453
All Other Industry Segments	62,424	50,320	39,535	30,161	23,835
Total	$654,938	$607,799	$553,747	$498,084	$470,288

	1978	1977	1976	1975	1974
	(Dollars in Thousands)				
Earnings: (1)					
Life Insurance Industry Segment by Product Line:					
Life insurance:					
Ordinary life	$ 93,775	$ 81,811	$ 80,493	$ 66,526	$ 56,203
Industrial life	66,276	62,538	58,420	48,488	44,012
Other	391	274	(118)	390	197
Accident and health insurance:					
Individual	4,802	6,773	6,370	5,865	6,754
Other	(200)	205	126	(1,438)	(2,506)
	165,044	151,601	145,291	119,831	104,660
All Other Industry Segments	10,953	8,596	6,298	4,343	4,468
Total	$175,997	$160,197	$151,589	$124,174	$109,128

(1) Before income taxes and net realized investment gains or losses.

STATESMAN GROUP, INC.

	Year Ended December 31				
	1978	1977	1976	1975	1974
	(Amounts in Thousands)				
Revenues					
Property-casualty:					
Fire and multiple peril	$ 4,020	$ 4,009	$ 4,030	$ 3,487	$ 3,361
Automobile	9,501	8,911	8,089	7,384	7,029
Other, including net investment income	4,866	4,706	4,603	4,286	4,114
	18,387	17,626	16,722	15,157	14,504
Life:					
Life and annuity	16,972	15,102	12,553	5,493	4,533
Accident and health	14,624	11,863	7,361	4,517	4,002
Net investment income	3,990	3,185	2,101	982	728
	35,586	30,150	22,015	10,992	9,263
Administrative and management fees from reciprocal exchanges and other income	9,440	9,064	8,440	7,206	6,825
Other	2,751	2,554	2,011	2,327	1,593
Totals	$ 66,164	$ 59,394	$ 49,188	$ 35,682	$ 32,185
Income From Continuing Operations Before Income Taxes, Minority Interests And Net Realized Gains (Losses) On Investments					
Property-casualty:					
Fire and multiple peril	$ 116	$ 140	$ (152)	$ (824)	$ (626)
Automobile	(974)	(652)	(1,300)	(1,937)	(1,125)
Other, including net investment income	1,295	1,372	1,186	(210)	618
	437	860	(266)	(2,971)	(1,133)
Life:					
Life and annuity	(2,008)	(1,337)	(905)	(112)	(100)
Accident and health	100	1	(236)	(254)	(24)
Net investment income	3,990	3,185	2,101	982	728
	2,082	1,849	960	616	604
Administrative and management fees from reciprocal exchanges and other income	2,636	2,889	3,157	2,240	2,137
Other	1,938	641	364	612	2
Totals	$ 7,093	$ 6,239	$ 4,215	$ 497	$ 1,610

(continued)

	Year Ended December 31 1978 (Amounts in Thousands)	1977	1976	1975	1974
Depreciation And Amortization					
Property-casualty	$ 26	$ 26	$ 26	$ 27	$ 26
Life	50	47	58	11	13
Administrative and management	92	81	172	84	82
Other	4	13	19	108	109
Totals	$ 172	$ 167	$ 275	$ 230	$ 230
Capital Expenditures					
Property-casualty		$ 5	$ 3	$ 9	$ 2
Life	$ 452	32	50	35	14
Administrative and management	166	127	39	86	140
Other	13	3	1	3	7
Totals	$ 631	$ 167	$ 93	$ 133	$ 163
Assets					
Property-casualty	$ 35,383	$ 31,488	$ 29,201	$ 31,068	$ 31,193
Life	84,933	72,725	59,464	25,756	21,837
Administrative and management	76,723	67,951	67,936	44,503	40,892
Other	7,161	7,774	7,412	8,032	10,233
	204,200	179,938	164,013	109,359	104,155
Deduct eliminations	66,218	58,634	57,372	37,813	37,370
Totals	$137,982	$121,304	$106,641	$ 71,546	$ 66,785
Property And Equipment-Net					
Property-casualty		$ 510	$ 657	$ 683	$ 700
Life	$ 2,698	2,300	2,320	546	522
Administrative and management	565	513	474	526	534
Other	19	7	5	13	19
Totals	$ 3,282	$ 3,330	$ 3,456	$ 1,768	$ 1,775

BUSINESS MEN'S ASSURANCE COMPANY OF AMERICA

	Life Insurance (C)(E)							
		Accident and Health						
	Life (Dollars in Thousands)	Group	Other	Total	Real Estate	Television Broadcasting	Eliminations	Consolidated
For the year ended:								
December 31, 1978								
Income from unaffiliated sources	$134,983	41,432	28,170	204,585	29,745	8,001	-	242,331
Intersegment income	177	5	5	187	(4)	-	183	-
	$135,160	41,437	28,175	204,772	29,741	8,001	183	242,331

	Life Insurance (C)(E)							
		Accident and Health						
	Life	Group	Other	Total	Real Estate	Television Broad-casting	Elimi-nations	Consoli-dated
	(Dollars in Thousands)							
Earnings (losses) before taxes on income, including minority interests and non-consolidated subsidiary	$ 29,549	1,255	804	31,608	340	2,031	-	33,979
Taxes on income (C)	8,583	287	220	9,090	163	975	-	10,228
Earnings (losses) before realized losses on investments	20,966	968	584	22,518	177	1,056	-	23,751
Realized losses on investments, net of income taxes	(173)	(5)	(5)	(183)	-	-	-	(183)
Earnings (losses) from operations before extraordinary item	$ 20,793	963	579	22,335	177	1,056	-	23,568
Identifiable assets	$642,369	17,672	18,020	678,061(B)	57,821(B)	9,225	478	745,585
December 31, 1977								
Income from unaffiliated sources	$123,904	37,886	26,465	187,255	32,734	10,569(A)	-	230,558
Intersegment income	764	19	20	803	-	-	803	-
	$124,668	37,905	26,485	188,058	32,734	10,569	803	230,558
Earnings (losses) before taxes on income, including minority interests and non-consolidated subsidiary	$ 23,555	603	699	24,857	(2,346)	5,353(A)	-	27,864
Taxes on income (C)	6,954	139	189	7,282	-	1,655	-	8,937
Earnings (losses) before realized losses on investments	16,601	464	510	17,575	(2,346)	3,698	-	18,927
Realized losses on investments, net of tax benefits	(1,390)	(34)	(37)	(1,461)	-	-	-	(1,461)
Earnings (losses) from operations before extraordinary item	$ 15,211	430	473	16,114	(2,346)	3,698	-	17,466
Identifiable assets	$599,760	12,170	13,000	624,930(B)	67,805(B)	6,438	552	699,725

Notes:

(A) Amounts include $4,104,461 from gain on sale of all interests in Westport Television, Inc.

(B) Real estate identifiable assets include those assets of real estate subsidiaries. The 1978 life insurance identifiable assets include real estate held for investment of $11,136,166 (1977--$15,747,463) and real estate acquired through foreclosure amounting to $1,696,628 (1977--$1,320,435).

(C) The life insurance segment is taxed as a separate entity. The real estate and television broadcasting segments are taxed in the same entity, thus the tax rate for the television segment is computed at other than normal rates. See note 4 for additional explanation of taxes on income.

(D) Depreciation for the life insurance and real estate segments in 1978 were $1,006,991 and $1,414,804, respectively ($1,186,703 and $1,532,043 in 1977).

(E) Premium income, benefit payment, future policy benefits, amortization of acquisition costs and identifiable operating costs and expenses were allocated directly to each product. Other costs and expenses were allocated based on time studies or other appropriate allocations. Policy loan interest income was allocated directly to the life product. The balance of investment income was allocated based on assignable liabilities net of policy loans. Taxes on income were allocated to each product by marginal rates which allocate taxes in proportion to how the total tax arose. The assets of the life insurance segment, for the most part, are not segregated by product. Invested assets and other assets not directly assignable to a product were allocated in a manner similar to investment income.

REPUBLIC NATIONAL LIFE INSURANCE COMPANY

The Company operates exclusively in the life insurance industry offering several types of life insurance products and selling accident and health insurance and annuity products through its life insurance marketing activities. During 1978, the definition of industry segments evolved classifying individual and group products within separate segments, and further classifying life and health products in separate segments if they are sold separately.

Group life and health insurance is marketed as one combined product by the Company. Individual health insurance operations are insignificant and information previously presented for individual health insurance operations has now been combined with individual life insurance.

Data for the two business segments of the Company is as follows:

	1978		1977	
	Individual	Group	Individual	Group
	(Thousands of dollars)			
Premiums	$ 81,520	252,224	74,230	219,278
Net investment income*	$ 20,495	6,657	16,533	5,069
Income from operations before taxes**	$ 14,051	6,894	9,562	5,733
Assets assigned*				
Identifiable	$ 83,715	25,395	75,736	22,913
Allocated	412,754	126,523	381,842	113,771
Total	$496,469	151,918	457,578	136,684

*Identifiable assets include deferred acquisition costs, due premiums, and agents' balances. Allocated assets represent primarily the invested assets which are not identified by source. The allocation of invested assets is based upon the net liabilities and surplus of the two segments and is the primary basis for the assignment of investment income. Other assets are allocated in the same ratio as invested assets.

**In determining income from operations, direct expenses are charged by segment. Other costs and expenses are allocated on the most appropriate basis, such as number of policies and commissions or in the ratio of a direct cost, such as salaries.

Section E

Foreign Corrupt Practices Act and Public Reporting on Internal Control

All companies, whether they operate outside of the United States or not are affected by the Foreign Corrupt Practices Act of 1977 (the "Act"). The Act sets fines and penalities for any corporation and its officers and directors engaging in foreign bribery, but it also amends the Securities Exchange Act of 1934 to require **all** publicly held companies to maintain accurate records and adequate systems of internal control. These accounting provisions apply equally to U.S. companies whether or not they are involved in internal activities.

The Act requires publicly held companies to:

> Devise and maintain a system of internal control sufficient to provide reasonable assurance that assets are safeguarded and that transactions are properly authorized and recorded, and keep reasonably detailed records which accurately and fairly reflect financial activities.

In general, most life insurance companies already do these things; they are essential to sound business practices. But now, these responsibilities have been codified and made part of the 1934 Act.

The SEC has proposed that companies publicly report on whether their system of internal control meets the specified objectives of the Act. Public reporting by management would begin with annual reports to shareholders and Form 10-Ks for fiscal years ending after December 15, 1979. In reports for years ending before December 16, 1980, companies would be required to tell whether their systems, **as of year end,** meet the requirements forinternal controls and to disclose if any "material weaknesses" (as defined in the professional auditing literature) were pointed out by the auditors and were not corrected by year end.

Beginning with annual reports for years ending after December 15, 1980, the report on controls would cover the full year, not just year end. And a company would have to disclose if it discovers system flaws other than those caused by "changing circumstances."

In the reports for years ending before December 16, 1980, auditors would be required only to continue to communicate to management and directors any material weaknesses that they identify in their normal audit. But for calendar year 1980 and later reports, they would have to examine management's report on internal controls, and give an opinion in the annual report and Form 10-K as to whether the management report (1) is consistent with management's actual findings and evaluation, and (2) is reasonable as to transactions and assets which are material to the financial statements. This proposed requirement represents a significant expansion of the traditional scope of auditors' examinations with respect to internal accounting control.

Based on the many public statements made by representatives of the SEC over the past several months, it is likely that final rules will be adopted for public reporting. The SEC implies that companies should make any necessary changes in their system before the end of their next fiscal year so that their year end and future management reports can be unqualified. Since there will be a "one time" opportunity to make changes in internal controls without having to report any weaknesses, companies should prepare now for reporting under the SEC proposal.

The SEC release stresses that the fulfillment of management's responsibilities should be documented. Many companies have been reviewing and documenting their systems to demonstrate their compliance with the Act. In light of this proposal, companies should assess the status of their review.

Many companies, especially smaller ones, have relied on their auditors to test the operation of their system. The SEC believes management should review, monitor, and test its system in order to fulfill its responsibilities. The SEC also believes that the system must be adequate to provide interim financial reports and information of the same quality as annual financial statements.

A systematic approach to evaluating internal control will be valuable not only to SEC-regulated life insurance companies, but also to mutual companies, fraternals, and non-SEC stock companies.

To assist management and directors of life insurance companies in documenting and evaluating their systems of internal control, Ernst & Whinney has published **Evaluating Internal Control: Life Insurance** (E&W No. 58145). This Guide and the related documentation supplement (E&W No. 58150) suggest a practical approach to documenting control that results in clear, easy to understand statements of how a life insurance company achieves the objectives of the Acts' accounting provisions. The Ernst & Whinney publications, **Evaluating Internal Control,** E&W No. 58146 for property/liability insurance companies and E&W No. 33841 for commercial and industrial companies, may be useful in evaluating controls of property/liability and noninsurance subsidiaries of life insurance companies.

Of the stock companies included in the survey, 18 included a "management report" or commented on managements' responsibilities in their 1978 annual reports. These reports or representations generally discussed management's responsibilities for the financial statements and commented on such related subjects as the adequacy of internal control and the roles of the audit committee and the internal and independent auditors.

EXAMPLES Management reports or representations

ALL AMERICAN ASSURANCE COMPANY
(Responsibility for Financial Statements to the Stockholders of All American Assurance Company)

The accompanying balance sheets at December 31, 1978 and 1977, and the related statements of operations, shareholders' equity and changes in financial position for the years then ended were prepared by management who is responsible for their integrity and objectivity. The statements have been prepared in conformity with generally accepted accounting principles. The Company maintains an accounting system and related controls that we believe are sufficient to provide reasonable assurance that financial records are reliable for preparing financial statements and maintaining accountability for assets. Where appropriate, based on the judgment of management, the statements include estimates giving due consideration to materiality. The concept of reasonable assurance is based on the recognition that the cost of a system of internal control must be related to the benefits derived. The Company employs the services of the actuarial firm of XXX for the purpose of reviewing reasonableness of the actuarial assumptions included in the financial statements.

The financial statements have been examined by XXX, Independent Public Accountants, and their report is on page 5. Their examination was conducted in accordance with generally accepted auditing standards, including a review of internal control and, accordingly, included such tests of the accounting records and such other auditing procedures as they considered necessary. The qualified auditors' report expresses an informed judgment as to whether management's financial statements considered in their entirety, present fairly, in conformity with generally accepted accounting principles, the Company's financial condition and operating results.

The Board of Directors pursues its responsibilities for these financial statements through its Audit Committee, composed of Directors other than All American Assurance employees, whose primary interest is to see that both management and the independent auditors are carrying out their responsibilities. To insure complete independence, XXX has full and free access to the Audit Committee.

XXX	XXX
President	Executive Vice President &
February 22, 1979	Controller

AMERICAN CREDIT CORPORATION
(Management's Statement of Responsibility)

The management of American Credit Corporation is responsible for the fairness and integrity of the financial information included in this annual report. In keeping with this responsibility, management has prepared the financial statements contained herein in accordance with generally accepted accounting principles to present fairly the Company's consolidated financial position and results of operations for the years ended December 31, 1978, and 1977. As stated in their report, XXXXX, independent auditors, have examined the Company's consolidated financial statements in accordance with generally accepted auditing standards and have expressed an informed opinion thereon.

Adequate accounting systems and related controls are maintained to provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that accounting records are reliable for preparing financial statements. The concept of reasonable assurance is based on recognition that some errors or irregularities may occur and that the cost of such systems should not exceed benefits to be derived therefrom. Management believes that the Company's accounting system and related controls provide an appropriate cost-benefit balance.

American Credit's accounting systems and related controls are continuously reviewed through a program of audits, both by the internal audit staff and independent auditors. Activities of both groups are coordinated to ensure that proper audit coverage exists with minimum duplication of cost. The internal audit staff renders copies of its reports to the independent auditors, as well as to the audit committee of the board of directors, and access is readily available to all internal audit working papers.

The audit committee of the board of directors, composed solely of outside directors, meets with the independent auditors, management and internal audit staff periodically to review the work being performed and to ensure that responsibilities are being properly discharged by each group. The independent auditors and internal audit staff have unrestricted access to the committee to discuss such matters as results of audit work, opinions on the adequacy of internal accounting controls and evaluation of financial reporting quality.

AMERICAN EXPRESS COMPANY
(Responsibility for Preparation of Financial Statements)

The management of American Express Company is responsible for the preparation of the financial statements and footnotes included in this annual report to shareholders. The statements have been prepared in conformity with generally accepted accounting principles and, as such, include amounts based on the best judgements of management. Financial information included elsewhere in this annual report is consistent with these financial statements.

The Company's independent certified public accountants, XXX, are engaged to express an opinion on our financial statements. As auditors, they also provide an objective, outside review of management's responsibility to report operating results and financial condition. Working with our internal auditors, they review and test our system of internal accounting controls and the data included in the financial statements. They also have free access to the Audit Committee of the Board of Directors which reviews the scope and results of their examination at periodic meetings. Names of the Audit Committee members are on page 62; a description of the Committee's responsibilities is on page 64.

(Information and Internal Control Systems)

American Express Company maintains effective information and internal control systems. These systems have been adapted to keep pace with the growth and expansion of the Company and its subsidiaries.

In 1978, the Company began to implement two new information and control systems: a worldwide Chart of Accounts system for uniform data definition and a Journal Entry System for uniform transaction classification. These systems will improve control over data from the origination of a transaction to its inclusion in management reports.

XXX
Chairman

XXX
President

XXX
Senior Vice President--
Financial Administration

(Editor's Note--Sections on planning, information and control; planning; management reporting; development of financial managers; internal auditing; and analyses have been deleted)

C.I.T. FINANCIAL CORPORATION
(Statement of Responsibility for Finacial Data)

We are responsible for the integrity of the financial data reported for C.I.T. Financial Corporation and its subsidiaries in this report as well as in the Supplemental Financial Information Report and the Form 10K offered to stockholders on page 45 of this report. The financial statements are prepared in accordance with generally accepted accounting principles, using the best possible estimates where estimates are necessary. Where alternative generally accepted accounting principles are appropriate, judgment is exercised to determine which principle should be adopted. The notes to the financial statements set forth the significant accounting principles followed by the Corporation and its subsidiaries.

The accompanying consolidated financial statements have been examined by XXX, independent public accountants. Their examination was conducted in accordance with generally accepted auditing standards, which included a review of the Corporation's system of internal accounting control, tests of the accounting records and other auditing procedures considered necessary to formulate an opinion on the consolidated financial statements. Their opinion on the consolidated financial statements is presented on this page.

The Corporation has established and maintains a system of internal accounting control, including an internal audit program, which provides reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition, transactions are executed in accordance with management's authorization, the recorded accountability for assets is verified periodically to existing assets and that accounting records are reliable for the preparation of financial statements. The foundation of the system of internal accounting control rests upon careful selection and training of personnel, segregation of responsibilities and application of formal policies and procedures that are consistent with the highest standards of business conduct. The system of internal accounting control is being continually modified and improved in response to changes in business conditions and operations and to recommendations made by XXX and the Internal Audit Department.

The Board of Directors has an Audit Committee composed of five independent directors which meets periodically during the year. An important function of the Audit Committee is to meet with XXX, the Internal Audit Manager of the Corporation and management of the Corporation to ensure that the system of internal accounting control is being properly administered and that financial data are being properly reported. To ensure complete independence, the Audit Committee also meets privately with XXX and the Internal Audit Manager without members of management present.

XXX
Vice President
and Controller

XXX
Vice President--
Finance

HOUSEHOLD FINANCE CORPORATION

Management is responsible for the preparation, integrity, and objectivity of the Company's financial statements. The financial statements are prepared from the Company's books and records of transactions in the ordinary course of business and, as appropriate, include amounts that are based upon management's best estimates and judgments, all in conformity with generally accepted accounting principles appropriate in the circumstances. Financial information elsewhere in the Annual Report is consistent with that in the financial statements.

The Company maintains systems of internal accounting controls and procedures which are under the surveillance of staffs of internal auditors who consider the adequacy and investigate the adherence to these controls and procedures in actual practice. Our independent auditors, XXX, also study and evaluate the Company's accounting systems and related controls and perform tests of transactions and balances in accordance with generally accepted auditing standards. This permits them, as independent auditors, to render an opinion as to the fairness of the financial statements prepared by the Company.

(continued)

The Audit Committee of the Board of Directors is composed solely of outside directors. It meets periodically with the independent auditors, the internal auditors, and management to discuss auditing and financial reporting matters. Both the independent auditors and the internal auditors have unrestricted access to the Audit Committee without the presence of Company management for the purpose of discussing the results of their audit work and their opinions as to the adequacy of internal accounting controls and the quality of financial reporting.

Management has long recognized its responsibility for conducting the Company's affairs in a manner which is responsive to the interests of employees, shareholders, investors, and society in general. This responsibility is reflected in our statement of policy on ethical standards which provides that (a) the Company will fully comply with the laws, rules, and regulations of every community in which it operates and adhere to the highest ethical standards, (b) the officers, employees, and agents of the Company are expected and directed to manage the business of the Company with complete honesty, candor, and integrity, (c) conflicts of interest are to be avoided, and (d) relations with public officials are to be maintained at a level which is beyond reproach.

XXX	XXX	XXX
Chairman of the Board and Chief Executive officer	President	Senior Vice President and Chief Financial officer

KEMPER CORPORATION

(Management's Responsibility For Financial Reporting)

Kemper Corporation's consolidated financial statements, which appear on the following pages, were prepared by management in conformance with generally accepted accounting principles appropriate in the circumstances. The notes to the financial statements are an integral part of the financial statements and should be read in conjunction therewith.

The financial statements are presented on the accrual basis of accounting and therefore include some amounts based upon the judgment of qualified personnel. The financial information included elsewhere in this annual report is consistent with that included in the financial statements.

The company is responsible for the credibility and the integrity of the financial statements. The organizational structure, accounting procedures, and system of internal controls are designed to provide reasonable assurance that assets are protected and that the books and records properly reflect the transactions of the company.

The insurance subsidiaries are subject to state regulation. As such, their accounting records also are designed to conform with state regulatory reporting requirements. All purchases and sales of investments are approved by the finance committees of the boards of directors and quarterly reports are made to each company's board.

An internal audit department is maintained. The staff audits home office functions and field offices. The department manager meets with the audit committee of the board of directors, and he has the authority to contact the audit committee at any time as circumstances warrant.

The audit committee of the board of directors, which is comprised of three outside directors, has general administration over internal control and financial reporting. No member of this committee is an officer or employee of the company. The independent auditors also have direct access to the audit committee and meet with the committee periodically to discuss the scope of each audit, the results of the audit and other pertinent matters.

The financial statements for the years ended December 31, 1978 and December 31, 1977 have been examined by XXX, independent public accountants. Their examination was conducted in accordance with generally accepted auditing standards which includes a review of internal accounting controls and such tests of the accounting records and such other auditing procedures as they considered necessary. Their report on the audit appears on page 45.

LIBERTY NATIONAL LIFE INSURANCE COMPANY

(Management Report On Consolidated Financial Statements)

The following financial statements were prepared by the management which is responsible for their integrity, consistency and objectivity. They were prepared in conformity with uniform statutory accounting practices prescribed by the National Association of Insurance Commissioners and adopted by Insurance Departments in the states in which we are licensed.

Internal accounting control procedures at Liberty National are designed to provide reasonable assurance that financial information is prepared from reliable records and that assets are safeguarded from loss or unauthorized use. Internal accounting controls are enhanced by careful selection, and development of qualified personnel and an active internal audit program.

An Audit Committee of the Board of Directors has functioned during the past six years to assure that independent and internal auditors have full and free access to the Board of Directors, without management present, to discuss the results of their examination, their opinions on internal accounting controls, and the quality of financial reporting. The Committee meets at least once each year with the auditors for this purpose. It also meets periodically with management to discuss these same matters. The Committee is composed of three directors who are not members of the management of the Company; these are XXX, XXX, and XXX.

The Internal Auditing Department, which reports directly to the Chairman of the Board, conducts operational audits of all activities of the Company on a year-round basis. In addition, an annual examination is conducted by an independent public accounting firm in accordance with generally accepted auditing standards. The internal and external auditors frequently work together and provide the Company with an effective auditing function.

XXX
Vice President and Controller

LINCOLN NATIONAL CORPORATION
(Responsibility For Financial Statements)

The following financial statements were prepared by the Lincoln National management which is responsible for their integrity and objectivity. The statements have been prepared in conformity with generally accepted accounting principles and, as such, include amounts based on estimates and judgments of management.

The Lincoln's internal controls, policies, and procedures are designed to provide reasonable assurance as to the integrity of the financial records and the protection of assets. A staff of internal auditors monitors compliance with these controls, policies, and procedures.

XXX, independent auditors, have examined these financial statements. Their examination is conducted in accordance with generally accepted auditing standards which includes an understanding of the Lincoln National accounting and financial controls. They conduct such tests and related procedures as they deem necessary to arrive at an opinion on the fairness of the financial statements. Their report appears on page 33.

The Board of Directors is responsible for engaging the independent auditor and for assuring that management fulfills its responsibilities in the preparation of the financial statements. An Audit Committee of the Board meets periodically with management, the internal auditors, and the independent auditors, both separately and jointly, to enable the Board to fulfill this responsibility. The Audit Committee consists of three Directors who are not otherwise employed by the Lincoln. The membership of the Audit Committee is listed on page 34.

LUTHERAN BROTHERHOOD
(Report Of Management)

The management of Lutheran Brotherhood prepared the following financial statements for the years ended December 31, 1978, and 1977. The opinion of the Society's independent auditors, XXX, on those financial statements is included. Management is responsible for all financial information included in the statements and for the internal consistency of that information. Since the applicability of generally accepted accounting principles to fraternal benefit societies has not been determined, the statements are prepared in conformity with accounting practices prescribed or permitted by the Insurance Department of the State of Minnesota.

In developing the financial information, the Society maintains an accounting system and related internal controls that are designed to provide reasonable assurance as to the reliability of financial records and protection of assets. This system and related controls are reviewed by the Society's internal auditors and by its independent auditors.

The Board of Directors maintains its control over the financial information through its Audit Committee, comprised of three directors who are independent of management. Periodically, both the independent auditors and internal auditors meet separately with the Audit Committee to discuss adequacy of financial controls and the quality of financial reporting.

XXX
Vice-President
Accounting

XXX
Senior Vice-President
and Treasurer

METROPOLITAN LIFE INSURANCE COMPANY
(Statement Of Management's Responsibility)

The financial statements included in Metropolitan's Annual Report were prepared by corporate management in conformity with accounting practices prescribed or permitted by insurance regulatory authorities and management feels they fairly present the financial position of Metropolitan. The financial information developed from corporate records is subject to audit by independent accounting firms retained by the Company and the statutory policy reserves are reviewed and certified by the Insurance Department of the State of New York.

Metropolitan's management is committed to maintaining strong systems of internal financial control over all Company operations. The fiduciary nature of the Company's operation for its policyholders requires that the highest level of financial integrity be maintained and the Company commitment to strong internal financial controls is an aspect of this requirement. Based on reviews of Company operating procedures conducted by both Metropolitan's internal auditors and the outside accounting firms retained by the Company, it is management's opinion that its existing internal financial controls are adequate.

The independent accounting firms retained by Metropolitan are selected by the Auditing Committee of the Board of Directors. This committee of the Board considers the scope of the examinations by the outside accounting firms and discusses any findings they might wish to report. Portions of such discussions are held in the absence of any representatives of Metropolitan's management. The Auditing Committee, which is composed of outside directors only, also receives reports from the Company's Controller, providing the Committee with a knowledge of the financial control work being performed by the internal accountants and auditors, as well as assurance that our accounting records properly reflect the Company's financial position. Metropolitan is proud to say that its Auditing Committee has been in existence for over 100 years, making Metropolitan a pioneer in the establishment and use of such a committee.

Section F

Proxy Statement Changes in 1979

During 1978, the SEC amended its proxy rules and regulations for publicly traded companies required to solicit proxies in connection with annual shareholder meetings. The new changes require substantial increases in disclosures regarding the composition and functioning of a company's board of directors, the reporting of management remuneration, and the relationship of a company with its independent accountants.

Ernst & Whinney publications concerning these changes to the general rules governing proxy solicitation are contained in an E&W booklet, *Proxy Statements: An Overview of the Requirements*)E&W No. 38958), which includes a summary of the general rules and disclosure requirements of proxy statements; and an E&W pamphlet, *SEC Proxy Disclosure of Relationships with Auditors* (E&W No. 38880), which covers, in detail, the requirements of ASR No. 250 and SAB No. 25.

The new disclosures regarding the composition and functioning of a company's board of directors are to allow shareholders to assess how independent directors or nominees are from the company. The disclosures now required include detailed descriptions of the background of each director or nominee, their relationship or dealings with the company or other board members, the identity and description of various committees of the board of directors, and the number of meetings held by the board and its various committees annually.

Changes in the reporting of management remuneration were made partially to recognize the increasing complexity of management compensation packages.

The rules now require the five highest paid executives, officers, or directors of the registrant or its subsidiaries that earn over $50,000 to be listed separately in a remuneration table. Compensation is now required to be separated into one of the following three categories:

> Current salary, fees, bonuses, commissions, and directors fees
>
> Nonmonetary compensation, such as stock or other property distributed during the year; personal benefits (perks) and deferred compensation, the payment of which is not contingent upon future events, and
>
> Deferred compensation that is in part dependent upon future events, including amounts expensed under retirement plans, deferred profit sharing, or stock appreciation rights.

The required proxy statement disclosures regarding a company's relationship with its independent accountants were intended to strengthen the independence of the accountants. The disclosures required including the principal accounting firm selected or recommended to shareholdes for the current year, a statement as to whether representatives of the above firm would be attending the annual meeting, and if the registrant changed accounting firms during the year, a disclosure is required as to whether the audit committee or full board approved the change.

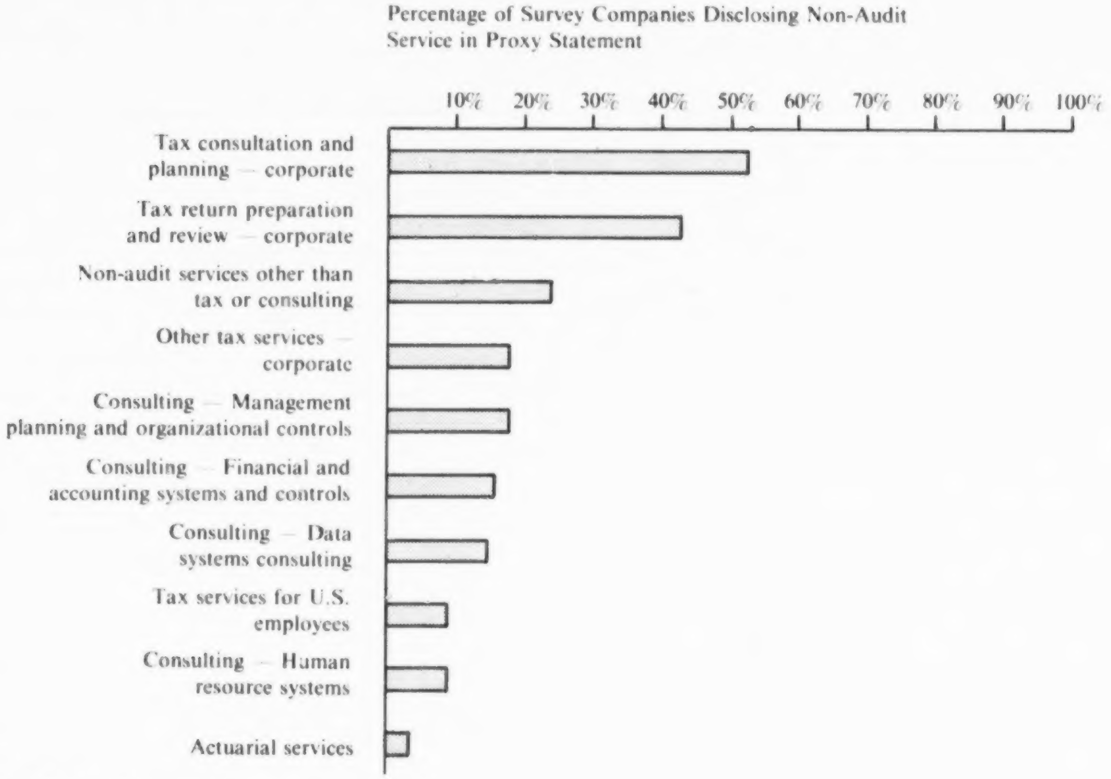
In addition, through the issuance of ASR No. 250, the following disclosures are required regarding services provided by a company's independent accountants:

> A description of each audit and nonaudit professional service by the registrant's independent accountants.
>
> The percentage relationship — both in the aggregate and individually for any service greater than 3% — that fees for nonaudit services bear to audit fees.
>
> A statement as to whether nonaudit services were approved by the audit committee or board of directors before the services were performed to consider their possible effect on audit independence.
>
> A description of the circumstances underlying any services furnished at noncustomary rates or direct or indirect understandings limiting current or future fees.

SAB No. 25 offers interpretive guidance to registrants disclosing relationships with independent accountants in proxy statements.

Proxy statements for 1979 annual shareholder meetings of 100 stock life insurance companies were coded for certain disclosures required by ASR No. 250 and the results are shown in Figures F-1 through F-4.

Figure F-1. Nonaudit Services Disclosed in Proxy Statements



Based on 100 stock companies in survey.

Figure F-2. Fees for Certain Nonaudit Services

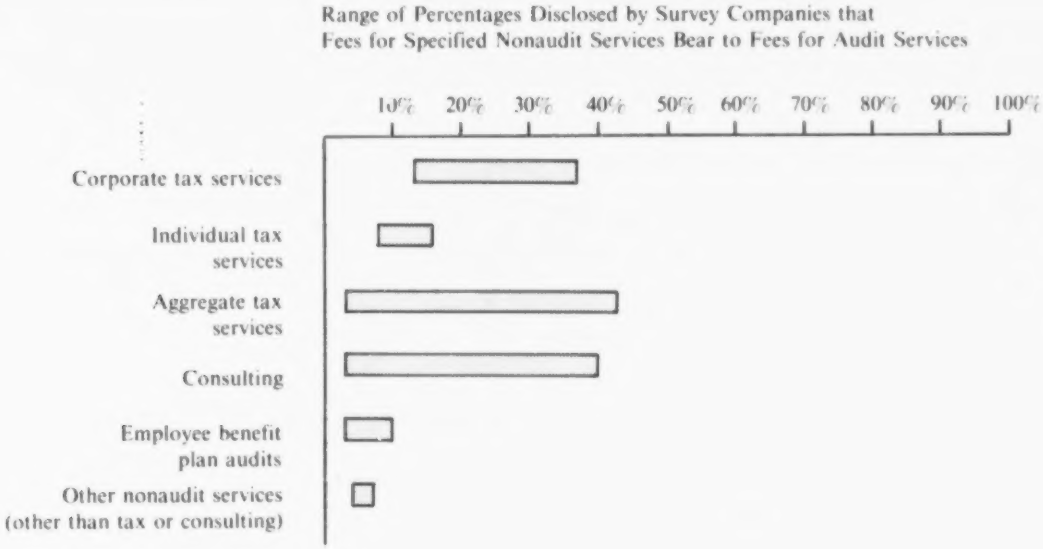


Figure F-3. Approval of nonaudit services

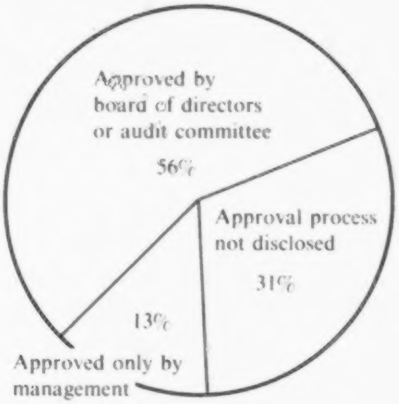
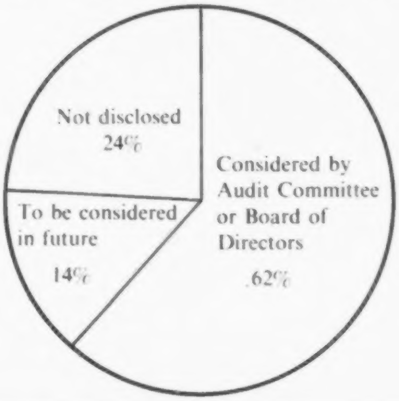


Figure F-4. Consideration of the effect of Performance of Nonaudit Services on Independence of Auditors



EXAMPLES ASR No. 250 disclosures in proxy statements

AMERICAN HERITAGE LIFE INVESTMENT CORPORATION

The firm of XXX has audited the financial statements of the Company for its fiscal year ended December 31, 1978, and has been selected to make a similar audit for the Company fiscal year ended December 31, 1979. Neither the firm nor any of its associates has any relation with the Company or any of its subsidiaries except in their capacity as such auditors.

In line with past practices, it is expected that representatives of the independent accountants will attend the annual shareholders meeting and be available to respond to appropriate questions and make appropriate comments concerning the Company.

Since the last meeting of shareholders, pursuant to recommendation by the Company's Audit Committee, the Board of Directors of the Company replaced the firm of XXX with that of the firm of XXX to act as the auditors of the Company.

The only service provided by XXX during 1978 was the annual audit of the Company's financial statements which engagement was preapproved by the Company's Board of Directors. On January 30, 1979, the Company's Audit Committee resolved that, in its opinion, the independence of XXX had not been impaired by their engagement to audit the Company's financial statements.

BENEFICAL STANDARD CORPORATION

At the Annual Meeting, stockholders will be asked to ratify the selection by the Board of Directors of XXX as independent certified public accountants of the Company for the current year. No representative of XXX is expected to attend the Annual Meeting. If the stockholders do not ratify the selection, the Board of Directors will reconsider its selection.

The Board of Directors recommends a vote FOR this proposal. Management's proxy holders will vote all proxies received in favor of such proposal, unless otherwise instructed.

XXX provided the Company and its subsidiaries with both audit and non-audit services in 1978. The audit services included examinations of annual financial statements, reviews of interim reports to stockholders and of documents filed with the Securities and Exchange Commission, consultations with respect to financial accounting and reporting matters, and attendance of meetings of the Audit Committee of the Board of Directors.

Fees paid to XXX by the Company and its subsidiaries, including a 60.5%-owned subsidiary, in 1978 for non-audit services constituted 46.2% of fees paid for audit services. Non-audit services and the percentage of fees paid for such services relative to the total fees for audit services were: development of an automated profit plan (7.0%), development of financial planning models (7.0%), conduct of cash management studies (10.8%), research on various tax questions (5.1%), review of design and implementation of a data processing system for policy management (7.4%), analysis of an existing data processing system (7.6%) and examination of the financial statements of a pension plan (less than 3%).

The Audit Committee of the Board of Directors of the Company has determined that the rendering of non-audit services not separately considered by it, within the following limits for any fiscal year, should have no effect on the independence of the auditors; services resulting in fees of not more than $25,000 for any one service or $100,000 in the aggregate. All non-audit services rendered to the Company and its subsidiaries were either considered separately before or after they were rendered by the Audit Committee of the Company (or that of its 60.5% owned subsidiary) and determined not to affect the independence of the auditors or fell within the aforementioned limits.

FIRST UNITED, INC.

XXX of Chicago, Illinois, have served as the Company's independent public accountants since 1973. The Audit Committee of the Board of Directors has recommended their retention, and the Board of Directors has selected XXX as the Company's independent public accountants for the year ending December 31, 1979, subject to ratification by the stockholders. Accordingly, the stockholders will be asked to ratify this selection at the Annual Meeting by vote of a simple majority of the shares of the Company's common stock voting at the meeting.

If the stockholders do not ratify the selection of XXX, the Board of Directors will reconsider the selection of independent public accountants. The Board retains the power to select other independent accountants to replace the firm whose selection was ratified by the stockholders in the event the Board determines that the best interests of the Company warrant such a change.

A representative of XXX is expected to be present at the Annual Meeting, will have the opportunity to make a statement if he desires to do so, and will be available to respond to appropriate questions.

Audit services of XXX in 1978 included examination of the consolidated and separate financial statements of the Company and its subsidiary; assistance with and consultation on reports filed with the Securities and Exchange Commission; consultation on quarterly financial statements; and various extended audit procedures requested by the Committee. All non-audit services amounted to 6.2% of total audit fees. Included in these non-audit services were assistance in evaluating depreciation methods for inter-company sales of assets (3.4%) and review of Federal tax return changes in tax accounting (2.8%).

Each year the Audit Committee reviews and approves in advance the scope of the annual audit by the Company's independent accountants. Although the Committee is apprised of the nature and cost of the non-audit professional services rendered by such accountants, neither the Audit Committee nor the Board of Directors has reviewed and approved such non-audit services in advance. However, all services and fees have been subsequently reviewed by the Committee, and the Committee believes the non-audit services rendered by XXX during 1978 were appropriate and did not affect their independence.

CHUBB CORPORATION

The Board of Directors, acting upon the recommendation of the Audit Committee, recommends for approval by the shareholders the selection of XXX as the independent blic accountants of the Corporation for the year 79. This firm has acted as accountants for the Corporation and its predecessor companies for many years.

In addition to its principal service of examining the financial statements of the Corporation and certain subsidiaries, XXX provided certain non-audit services for the Corporation and its subsidiaries during 1978. It is estimated that an amount equivalent to 24% of of the audit fees will be paid to XXX for these services. Such 24% is comprised as follows: 7% represents fees in connection with compensation planning for the Company, including the preparation of domestic and foreign tax returns of certain expatriate employees of Chubb & Son Inc.; 4% represents fees in connection with a special Canadian tax review; 4% represents fees in connection with the design and implementation of a computer system at Bellemead; 3% represents fees in connection with the Corporation's pension and profit sharing plans; 3% represents fees in connection with tax advice and review of the Corporation's consolidated tax return; and 3% represents fees for miscellaneous services, none of which accounted for as much as 3% of the estimated audit fees to be paid to XXX for 1978. In November 1978, the Audit Committee approved the general nature of the non-audit services performed by XXX. In approving the nature of the services and the estimated fees to be charged would have no adverse effect on the independence of the accountants.

In addition to the non-audit services described in the preceding paragraph, the Audit Committee has reviewed the estimated fees for all audit services rendered by XXX. The fee estimates that have been provided for such services are subject to reconsideration and revision if unexpected issues are encountered involving accounting or auditing.

Representatives of XXX are expected to be present at the Annual Meeting and to have the opportunity to make a statement should they desire to do so and to be available to respond to appropriate questions.

NATIONAL LIBERTY CORPORATION

The Company's consolidated financial statements for the year ended December 31, 1978 were examined by XXX, independent certified public accountants. In connection with the audit function, XXX also reviewed the Company's Annual Report to Shareholders, its filings with the Securities and Exchange Commission, its filings with certain insurance regulatory authorities, and performed limited reviews of quarterly financial data.

In addition, XXX provided other professional services to the Company, the aggregate fees for which were 24.7% of the fees for audit function services. Such other services, and the percentage relationship of the related fees to the audit fees, are described below:

> Tax planning in relation to reorganization--7.5%
>
> Review of actuarial assumptions used to price new insurance products--4.6%
>
> Attendance at meetings of corporate Planning Advisory Group--4.1%
>
> Consultation regarding tax implications of alternative investment strategies--less than 3%
>
> Review of corporate tax returns--less than 3%
>
> Consultation regarding other federal and state tax matters--less than 3%
>
> Audit of Company's Employees' Profit Sharing Plan--less than 3%.

All professional services rendered by XXX during the last fiscal year were furnished at customary rates and terms.

The audit committee has approved each professional service provided by XXX during the previous fiscal year. The audit committee has adopted procedures whereby the Committee:

> Pre-approves the types of professional services for which the company may retain XXX.
>
> Reviews each such service provided by XXX to ensure that the services provided were within the scope of the prior approval.

As part of the approval process, the audit committee considers whether the performance of each professional service impairs the independence of XXX as auditors for the company.

XXX has been retained by the Board of Directors of the Company to audit its financial statements for the year ended December 31, 1979. A representative of XXX will be present at the Annual Meeting and will have the opportunity to make a statement, if he desires to do so, and to respond to questions from shareholders.

EQUITABLE OF IOWA COMPANIES

The Board of Directors has appointed the accounting firm of XXX to act as independent auditors for the Company during 1979. The Company knows of no direct or material indirect financial interest of this accounting firm in the Company. Representatives of XXX are expected to be present at the Annual Meeting and available to respond to appropriate questions. Proxies, if given, will be voted for approval of XXX as auditors for 1979.

In addition to the audit of the Company's financial statements, the Company engaged XXX to perform certain other services. Fees (1978) for non-audit services approximated 7.5% of audit fees and consisted of: audits of home office and agents pension plans (4.3%), and all other services including consultation and tax assistance related to corporate tax matters, incentive programs and miscellaneous other services. Audit services included an examination of the Company's financial statements, review of and other services rendered in connection with the Company's annual report and registration statement filed with the Securities and Exchange Commission, consultation on financial accounting and reporting matters and meetings with the Audit Committee. XXX has informed the Audit Committee that in accordance with professional standards, it will not perform any non-audit service which would impair its independence for purposes of expressing an opinion on the Company's financial statements. The Audit Committee believes that non-audit services offered by XXX do not affect its role as the Company's independent auditor, and accordingly, it has not considered it necessary to approve individual non-audit services provided.

TRANSPORT LIFE INSURANCE COMPANY

The Audit Committee is charged with the duties of recommending to the Board the appointment of independent auditors; reviewing their compensation; conferring with the outside auditors to assure that personnel in the treasurer's and controller's departments are qualified for their positions; meeting periodically with the independent auditors and certain officers of the Company to insure the adequacy of internal controls and reporting, reviewing consolidated financial statements and performing any other duties or functions deemed appropriate by the Board.

The Executive Committee has authority to act for the Board of Directors except where action of the full Board of Directors is required by statute or by the Articles of Incorporation.

The accounting firm of XXX was selected by the Board of Directors to serve as independent certified public accountants for the Company for the year ended December 31, 1978. During the year ended December 31, 1978, XXX performed, in addition to the audit, non-audit services on behalf of the Company and received fees for such services representing 29 percent of the total fees charged by the firm during the year. Such services consisted of tax assistance and preparation (five percent); income tax planning (four percent); assistance in evaluating accounting and tax implications of proposed acquisitions (fourteen percent); and internal audit projects (four percent). Other non-audit services included a review of data processing security and other sundry projects (two percent).

Each year the Audit Committee reviews the scope of the annual audit by the Company's independent accountants. Although the Committee is appraised of the nature and cost of the non-audit professional services provided by such accountants, neither the Audit Committee nor the Board of Directors has reviewed and approved in advance the non-audit services rendered in 1978. However, all services and fees have been subsequently reviewed by the Committee, and the Committee believes the services rendered by XXX during 1978 were appropriate and did not affect their independence. At its December, 1978 meeting the Committee reviewed and approved the 1979 budget for non-audit services.

GULF & WESTERN INDUSTRIES, INC.

The Board of Directors of the Corporation has selected XXX to audit the accounts of the Corporation for the fiscal year ending July 31, 1979. The Corporation has been advised that XXX has no relationship with the Corporation or its subsidiaries other than that arising from the firm's employment as auditor, and the firm's performance of certain non-audit services described below. In accordance with a resolution of the Board of Directors, this selection is being presented to the stockholders for ratification at the Annual Meeting. (See "Pending Legal Matters" immediately above.)

If the foregoing proposal is not approved by the holders of a majority of the shares represented at the meeting and voting on the proposal, or if prior to the 1979 Annual Meeting XXX shall decline to act or otherwise become incapable of acting, or if its employment shall be otherwise discontinued by the Board of Directors, then in any such case the Board of Directors will appoint other independent auditors whose employment for any period subsequent to the 1979 Annual Meeting will be subject to ratification by the stockholders at that meeting.

The firm of XXX has audited the Corporation's accounts annually since 1959 and has offices in or convenient to most of the localities in the United States where the Corporation and its subsidiaries operate. The Corporation has been advised that representatives of XXX will be present at the meeting with the opportunity to make a statement if they desire to do so and will be available to respond to appropriate questions.

During the fiscal year ended July 31, 1978, 97% of the fees billed by XXX to the Corporation and its subsidiaries were for professional services provided in connection with the audit function, including audits of the consolidated financial statements of the Corporation and its subsidiaries which are included in the annual report of the Corporation to shareholders and in certain reports filed with Federal, state and other authorities by the Corporation, audits of the separate financial statements of certain subsidiaries of the Corporation, review of certain reports filed by the Corporation and certain subsidiaries with various lenders, and audits of the financial statements of certain pension plans of the Corporation and its subsidiaries.

The fees for non-audit services by XXX in the aggregate amounted to 3% of the fees for services provided in connection with the audit function. These non-audit services consisted primarily of three types: (1) review of security of certain of the Corporation's electronic data processing (EDP) systems, (2) statutory review of tax returns of certain foreign subsidiaries of the Corporation and (3) executive search. The Corporation's audit committee approved the review by XXX of the security of the Corporation's EDP systems on an ongoing basis. The other non-audit related services performed by XXX were not reviewed in advance by the audit committee or the Board of Directors. Since the fees for non-audit services performed by XXX are deemed to be not material in relation to the fees for audit services performed, the question of the possible effect on the independence of XXX was not considered by the audit committee. During the year ended July 31, 1978, no services were provided to the Corporation and its subsidiaries by XXX at rates or terms that were not customary and there is no understanding or agreement that places a limit on current or future years' audit fees.

The Corporation's audit committee consists of XXX, XXX, and XXX, all of whom are directors of the Corporation.

NORTH CENTRAL COMPANIES, INC.

The shares represented by the Proxy Committee will be voted for the approval of XXXXX as independent auditors for the Company for the fiscal year ending December 31, 1979. XXX has served as independent auditors for the Company since 1973. The Board believes that its selection of XXX should be submitted for ratification by the shareholders and recommends a favorable vote. Management is advised that XXX has no direct or indirect financial interest in the Company or any of its subsidiaries.

If the shareholders do not approve the selection, the Board of Directors will reconsider its appointment of XXX. A representative of XXX is expected to be present at the meeting, and will be available to respond to appropriate questions. The representative will have the opportunity to make a statement if desired.

The Audit Committee of the Board of Directors, at its meeting of March 13, 1979, retroactively approved the professional services which were provided by XXX for the year ended December 31, 1978, and determined that such services did not affect the independence of that firm in the performance of its audit. The non-audit portion of these services are described in the following table:

	Percentage To Audit Fees* For The Year Ended December 31, 1978
Tax services:	
Executive financial counseling	9%
Assistance with various tax matters	**
Examination of employee benefit plans:	
Financial Statements	8%
Actuarial services:	
Review of potential business acquisitions	4%
Assistance with various employee benefit plan matter	**
Total non-audit services	24%

*Audit fees included services in connection with quarterly and annual reports filed with the SEC.

**The percentage is less than 3% of audit fees.

WASHINGTON NATIONAL CORPORATION

The independent public accounting firm of XXX has audited WNC's consolidated financial statements as well as the individual financial statements of certain subsidiary companies. In addition to normal customary audit services, WNC engaged XXX to provide certain tax services, which approximated 6% of the audit fees. These services were income tax consultation and assistance in connection with corporate tax planning, preparation or review of corporate tax returns, and tax assistance provided to certain corporate executives. The following services are considered to be part of the audit: examination of annual financial statements; interim reviews of quarterly financial information; review and consultation connected with the filing of annual reports and registration statements with the Securities and Exchange Commission; consultation on current financial, regulatory, accounting and reporting matters; and meetings with the audit committee and various management representatives.

WNC's board of directors has an audit committee which met four times in 1978 and is composed of XXX, XXX, XXX, and XXX. The audit committee has reviewed the scope of services generally offered by XXX and has considered the possible effect that performing such services might have on audit independence. XXX has informed the audit committee that in accordance with professional standards, it will not perform any non-audit service which would impair its independence for purposes of expressing an opinion on WNC's financial statements. The audit committee believes that the non-audit services offered by XXX do not affect its role as WNC's independent auditor and, accordingly, it has not considered it necessary to approve the individual non-audit services provided. Other functions of the audit committee include reviewing financial statements with XXX prior to their presentation to the board of directors, determining the effectiveness and integrity of the audit effort and of internal accounting controls, and recommending the appointment of independent accountants for the ensuing year.

XXX has been selected by the board of directors of WNC to serve as its independent auditor for the year 1979. XXX has served as WNC's independent auditors since its incorporation in 1968. A representative from XXX will be present at the annual meeting and will have the opportunity to make a statement and to respond to appropriate questions.

Appendix 1

Company Lists

Stock Companies

Following is a listing of the 200 stock life insurance companies whose 1978 annual reports were included in this survey. Those companies whose names have an asterisk (*) following them also included in the survey of companies filing proxy statements in connection with the annual shareholders' meeting. The companies are listed in terms of the name under which the annual report was issued. Where applicable, the names of significant life insurance subsidiaries and affiliates are also included. Pages upon which excerpts, if any, from the company's annual report may be found are indicated. For ease of reference the word "the" has been eliminated in all cases in which it is part of the company's name.

Academy Insurance Group, Inc.*, 21, 24
  Academy Life Insurance Company
  Pension Life Insurance Company of America

Acceleration Corporation
  Acceleration Life Insurance Company

AEtna Life and Casualty Company*
  AEtna Life Insurance Company
  AEtna Life Insurance Company of Illinois
  AEtna Variable Annuity Life Insurance Company

All American Assurance Company, 46

American Agency Financial Corporation
  American Agency Life Insurance Company

American Capitol Insurance Company

American Credit Corporation, 46
  Citadel Life Insurance Company

American Express Company*, 47
  Fireman's Fund American Life Insurance Company

American Family Corporation*, 10, 26
  American Family Life Assurance Company of Columbus

American Fidelity Life Insurance Company, 12, 26

American Financial Corporation
  Great American Life Insurance Company
  United Liberty Life Insurance Company

American General Insurance Company*
  American General Life Insurance Company
  American General Life Insurance Company of Delaware
  American General Life Insurance Company of New York
  American General Life Insurance Company of Oklahoma
  California-Western States Life Insurance Company
  Hawaiian Life Insurance Co., Ltd.
  Life and Casualty Insurance Company of Tennessee
  Pioneer Security Life Insurance Company
  Variable Annuity Life Insurance Company

American Guaranty Financial Corporation, 20, 36
  American Guaranty Life Insurance Company

American Heritage Life Investment Corporation, 19, 37, 53*
  American Heritage Life Insurance Company

American Income Life Insurance Company

American Investment Company

American National Financial Corporation*, 38
  American National Insurance Company
  American National Life Insurance Company
  Commonwealth Life & Accident Insurance Company
  Standard Life and Accident Insurance Company
  Trans World Life Insurance Company of New York

- American Pioneer Corporation*, 20
  - American Pioneer Life Insurance Company
- American Public Life Insurance Company*
- American States Life Insurance Company*
- Appalachian National Corporation
  - Appalachian National Life Insurance Company
- Associated Madison Companies, Inc.
  - Madison Life Insurance Company
- Avco Corporation*
  - Paul Revere Life Insurance Company
  - Paul Revere Variable Annuity Insurance Company
  - Provident Alliance Life Insurance Company
- Baldwin-United Corporation*
  - Mid-West National Life Insurance Company of Tennessee
  - National Farmers Union Life Insurance Company
  - National Investors Life Insurance Company
- Bankers Security Life Insurance Society
- Beneficial Corporation*
  - Central National Life Insurance Company of Omaha
- Beneficial Standard Corporation*, 17, 53
  - Beneficial National Life Insurance Company
  - Beneficial Standard Life Insurance Company
- Business Men's Assurance Company of America*, 42
- Capital Holding Corporation*
  - Commonwealth Life Insurance Company
  - Georgia International Life Insurance Company
  - Home Life Insurance Company of America
  - Home Security Life Insurance Company
  - National Standard Life Insurance Company
  - National Trust Life Insurance Company
  - Peoples Life Insurance Company
- Celina Financial Corporation*
  - Celina National Life Insurance Company
- Central-National Financial Corporation*
  - Central National Life Insurance Company
- Charter Company
  - Charter Security Life Insurance Company
- Chase National Life Insurance Company, 27
- Chesapeake Life Insurance Company, 16
- Chubb Corporation*, 54
  - Colonial Life Insurance Company of America
  - United Life and Accident Insurance Company
- Cincinnati Financial Corporation*
  - Inter-Ocean Insurance Company
  - Life Insurance Company of Cincinnati
- C.I.T. Financial Corporation*, 47
  - North American Company for Life and Health Insurance
- City Investing Company*
  - Federal Home Life Insurance Company
  - PHF Life Insurance Company
- CNA Financial Corporation*, 26
  - Continental Assurance Company
  - Mid-States Life Insurance Company of America
  - Valley Forge Life Insurance Company
- College/University Corporation*
  - College Life Insurance Company of America
  - University Life Insurance Company of America
- Colonial Life & Accident Insurance Company*
- Colonial Penn Group, Inc.*
  - Colonial Penn Life Insurance Company
  - Intramerica Life Insurance Company
- Columbia National Corporation*
  - Columbia National Life Insurance Company
- Columbus Mutual Life Insurance Company
- Combined Insurance Company of America*, 39
  - Combined American Insurance Company
  - Combined Insurance Company of Wisconsin
  - Combined Life Insurance Company of New York
- Commercial Credit Company
  - American Health and Life Insurance Company
- Connecticut General Insurance Corporation*
  - Connecticut General Life Insurance Company
- Continental Corporation*, 10
  - National-Ben Franklin Life Insurance Corporation
- Continental Group, Inc.*, 10
  - Life Insurance Company of Virginia
  - Old Equity Life Insurance Company

- Continental Life & Accident Company, 16
- Cotton States Life and Health Insurance Company, 24
- CREDITHRIFT Financial, Inc.*
  - Merit Life Insurance Company
- CSE Corporation*
  - Civil Service Employees Life Insurance Company
- Durham Life Insurance Company
- Equitable of Iowa Companies*, 25, 54
  - Equitable Life Insurance Company of Iowa
  - Provident Life Insurance Company
- ERC Corporation*
  - American Defender Life Insurance Company
  - Centennial Life Insurance Company
  - National Fidelity Life Insurance Company
- Erie Family Life Insurance Company
- Farm Bureau Insurance Group
  - Farm Bureau Life Insurance Company of Michigan
- Farm and Home Life Insurance Company
- Farmers Group, Inc.*
  - Farmers New World Life Insurance Company
  - Investors Guaranty Life Insurance Company
  - Ohio State Life Insurance Company
- Fidelity Corporation
  - Fidelity Bankers Life Insurance Company
  - Security Assurance Company
- Fidelity Union Life Insurance Company
- First Colony Life Insurance Company*
  - American Mayflower Life Insurance Company
- First Executive Corporation*
  - Executive Life Insurance Company
  - Executive Life Insurance Company of New York
- First Farwest Corporation*, 11
  - First Farwest Life Insurance Company
- First Federated Life Insurance Company
- First Pyramid Life Insurance Company of America
- First United, Inc.*, 34, 53
  - First United Life Insurance Company
- Foremost Corporation of America, 18
  - Foremost Life Insurance Company
- Fortune National Corporation*
  - Fortune National Life Insurance
  - Great Life Insurance Company
- Founders Financial Corporation*
  - Estate Life Insurance Company of America
  - Founders Life Assurance Company of Florida
- General Electric Credit Corporation
  - Puritan Life Insurance Company
- George Washington Corporation, 11, 28
  - George Washington Life Insurance Company
  - George Washington Life Insurance Company of California
- Germantown Insurance Company
  - Germantown Life Insurance Company
- Globe Life and Accident Insurance Company*, 36
  - American Life and Accident Insurance Company
  - Bankers Health & Life Insurance Company
- Government Employees Insurance Company*
  - Government Employees Life Insurance Company
- Government Employees Life Insurance Company*
  - Government Employees Life Insurance Company of New York
- Greater Ohio Corporation*
  - Greater Ohio Life Insurance Company
- Gulf United Corporation*, 18, 21
  - American-Amicable Life Insurance Company
  - Gulf Life Insurance Company
  - Interstate Life and Accident Insurance Company
- Gulf + Western Industries, Inc.*, 55
  - American Pacific Life Insurance Company of California
  - Capitol Life Insurance Company
- H.F. Ahmanson & Company
  - National American Life Insurance Company of California
  - Stuyvesant Life Insurance Company
    - Trans-Oceanic Life Insurance Company
- Harleysville Insurance Companies
  - Harleysville Life Insurance Company

Hawkeye National Life Insurance Company

Home Beneficial Corporation, 10
  Home Beneficial Life Insurance Company

Household Finance Corporation*, 47
  Alexander Hamilton Life Insurance Company of America
  Maryland Life Insurance Company of Baltimore

IC Industries
  Lincoln Liberty Life Insurance Company
  Midwest Life Insurance Company of Lincoln, Nebraska

INA Corporation*, 16
  Educators Life Insurance Company of America
  Horance Mann Life Insurance Company
  INA Life Insurance Company
  INA Life Insurance Company of New York
  Life Insurance Company of North America
  Master Life Insurance Company

Independent Liberty Life Insurance Company

Independent Life and Accident Insurance Company*
  Herald Life Insurance Company

Indiana Group, Inc.
  Consolidated National Life Insurance Company

Integon Corporation*, 19
  Integon Life Insurance Company
  Victory Life Insurance Company

Intercontinental Life Corporation
  Intercontinental Life Insurance Company

Interfinancial Inc.
  Union Security Life Insurance Company
  United Family Life Insurance Company
  Universal Reserve Life Insurance Company

International Life Holding Corporation
  International Life Insurance Company of Buffalo

International Telephone and Telegraph Corporation
  Hartford Life and Accident Insurance Company
  Harford Life Insurance Company
  ITT Life Insurance Corporation

Investors Heritage Life Insurance Company*, 27

Investors Insurance Corporation

Jackson National Life Insurance Company

Jefferson National Life Insurance Company

Jefferson-Pilot Corporation*
  Jefferson Standard Life Insurance Company
  Pilot Life Insurance Company

Kansas City Life Insurance Company
  Sunset Life Insurance Company of America

Kaufman and Broad, Inc.*
  Sun Life Insurance Company of America
  Coastal States Life Insurance Company

Kemper Corporation, 48
  Federal Kemper Life Assurance Company

Kentucky Central Life Insurance Company, 34

Lamar Life Corporation
  Lamar Life Insurance Company

Liberty Corporation*
  Liberty Life Insurance Company
  United Fidelity Life Insurance Company

Liberty National Life Insurance Company
  Rockford Life Insurance Company

Life Insurance Company of Georgia

Life Investors Inc.*
  Bankers United Life Assurance Company
  Life Investors Insurance Company of America
  NN Investors Life Insurance Company Inc.

LifeSurance Corporation*, 16
  Kennesaw Life and Accident Insurance Company

Lincoln American Corporation
  Lincoln American Life Insurance Company

Lincoln Income Life Insurance Company, 19
  Integrity National Life Insurance Company

Lincoln National Corporation*, 11, 27, 17, 49
  American States Life Insurance Company
  Lincoln National Life Insurance Company
  Lincoln National Life Insurance Company of New York

Loyal American Life Insurance Company*

Manhattan Life Corporation*, 28
  Manhattan Life Insurance Company
  Northern National Life Insurance Company

McM Corporation
  Occidental Life Insurance Company of North Carolina
  Wilshire Insurance Company

Mid-America Life Assurance Company*

- Midwestern National Life Insurance Company of Ohio
- Midwestern United Life Insurance Company*
- Millers Insurance Group
  - Millers Life Insurance Company of Texas
- Modern American Life Insurance Company*, 23
  - Founders Security Life Insurance Company
- Monarch Capital Corporation*
  - Fidelity Bankers Life Insurance Company
  - First Variable Life Insurance Company
  - Monarch Life Insurance Company
  - Springfield Life Insurance Company Incorporated
- Monumental Corporation*, 40
  - Monumental Life Insurance Company
  - Volunteer State Life Insurance Company
- Motor Club of America*, 25
  - Garden State Life Insurance Company
- Mutual Savings Life Insurance Company
  - United Service Insurance Company, Inc.
- National Liberty Corporation*, 35, 54
  - National Home Life Assurance Company
  - National Independence Life Insurance Company
  - National Liberty Life Insurance Company
- National Life of Florida Corporation*
  - First Protection Life Insurance Company
  - Voyager Life Insurance Company
- National Old Line Insurance Company
  - Equity National Life Insurance Company
- National Reserve Life Insurance Company*
- National Security Insurance Company, 34
- National Western Life Insurance Company
- Nationwide Corporation*, 26
  - Gulf Atlantic Life Insurance Company
  - Michigan Life Insurance Company
  - Nationwide Life Insurance Company
  - West Coast Life Insurance Company
- Nationwide Life Insurance Company
- NLT Corporation*, 40
  - Guardsman Life Insurance Company
  - National Life and Accident Insurance Company
- NN Corporation
  - NN Providence Life Insurance Company
- North American Life and Casualty Company
- North Central Companies, Inc.*, 56
  - North Central Life Insurance Company
- Northern Life Insurance Company
- Northern National Life Insurance Company
- Northwestern National Life Insurance Company, 12
  - North Atlantic Life Insurance Company of North America
  - Northern Life Insurance Company
- Ohio Casualty Corporation*
  - Ohio Life Insurance Company
- Old American Insurance Company
- Old Republic International Corporation*
  - Home Owners Life Insurance Company
  - Old Republic Life Insurance Company
  - Old Republic Life Insurance Company of New York
- Orion Capital Corporation*
  - Bankers National Life Insurance Company
- Pacific Guardian Life Insurance Company, Limited
- Pacific Standard Life Company*
  - Pacific Standard Life Insurance Company
- Pekin Life Insurance Company
- Peninsular Life Insurance Company
- Pennsylvania Life Company*
  - Executive Fund Life Insurance Company
  - Massachusetts Indemnity and Life Insurance Company
  - Pennsylvania Life Insurance Company
  - William Penn Life Insurance Company of New York
- Piedmont Management Company, Inc.*, 29
  - Pacific Fidelity Life Insurance Company
- Preferred Risk Life Insurance Company, 39
- Protective Life Insurance Company
  - Empire General Life Insurance Company
- Provident Life and Accident Insurance Company
  - Provident Life and Casualty Insurance Company
  - Provident National Assurance Company
- Public Savings Life Insurance Company*
- Reliable Life Insurance Company, 17
- Reliance Group, Incorporated*
  - Reliance Standard Life Insurance Company

- Republic Financial Services, Inc.*
  - Industrial Life Insurance Company
- Republic National Life Insurance Company, 44
- Ryan Insurance Group, Inc.*
  - Geneva Life Insurance Company
  - Globe Life Insurance Company
  - Great Equity Life Insurance Company
- SAFECO Corporation*
  - SAFECO Life Insurance Company
- St. Paul Companies, Inc.*, 26
  - St. Paul Life Insurance Company
  - Western Life Insurance Company
- Sears, Roebuck & Company*
  - Allstate Life Insurance Company
- Security of America Life Insurance Company
- Security-Connecticut Life Insurance Company, 17
- Security Life and Accident Company
- Security Life Insurance Company of Georgia
- Seibels-Bruce Group, Inc.
  - Argus Life Insurance Company
  - Investors National Life Insurance Company
- Southern Life Insurance Company
- Southerland Financial Corporation*
  - Southland Life Insurance Company
- Southwestern Investment Company
  - Western National Life Insurance Company
- Southwestern Life Corporation*, 11
  - Southwestern General Life Insurance Company
  - Southwestern Life Insurance Company
- Standard Life Insurance Company
- Standard Life Insurance Company of Indiana, 17
- Standard Security Holding Corporaton, 24
  - Standard Security Life Insurance Company of New York
- Statesman Group, Inc.*, 41
  - American Life and Casualty Insurance Company
  - Statesman Life Insurance Company
  - Vulcan Life Insurance Company
- Supreme Life Insurance Company of America
- Teachers Insurance and Annuity Association of America
- Transamerica Corporation*
  - American Life Insurance Company of New York
  - Countrywide Life Insurance Company
  - Occidental Life Insurance Company of California
  - Occidental Life Insurance Company of Illinois
  - Transamerica Life Insurance and Annuity Company
- Transport Life Insurance Company*, 38, 55
  - Continental Life Insurance Company
- Travelers Corporation*, 11
  - Travelers Insurance Company
  - Travelers Insurance Company of Illinois
  - Travelers Life and Annuity Company
- Unicoa Corporation*, 35
  - General Life Insurance Corporation of Wisconsin
  - Pyramid Life Insurance Company
  - United Insurance Company of America
- Union Bankers Insurance Company, 20
- Union Labor Life Insurance Company, 20
- United Benefit Life Insurance Company, 17
- United Companies Financial Corporation
  - United Companies Life Insurance Company
- United Diversified Corporation*, 21
  - Associated Life Insurance Company
- United Fidelity Life Insurance Company
- United Founders Life Insurance Company
  - United Founders Life Insurance Company of Illinois
- United Life Insurance Company
- United Republic Investment Company*
  - United Republic Life Insurance Company
- United Savings Life Insurance Company*
- United Services Life Insurance Company
  - General Services Life Insurance Company
  - United Services General Life Insurance Company
- United States Fidelity and Guaranty Company*
  - Fidelity and Guaranty Life Insurance Company

USLIFE Corporation*
  All American Life & Casualty Company
  General United Life Insurance Company
  Great National Life Insurance Company
  Old Line Life Insurance Company of America
  United States Life Insurance Company in the City of New York
  USLIFE Credit Life Insurance Company
  USLIFE Life Insurance Company of California

Vulcan Life Insurance Company

Wabash International Corporation*
  Wabash Life Insurance Company

Washington National Corporation*, 35, 56
  Anchor National Life Insurance Company
  Washington National Insurance Company
  Washington National Life Insurance of New York

Western States Life Insurance Company

Westfield Companies
  Westfield Life Insurance Company

Wisconsin National Life Insurance Company

Mutual Companies and Fraternal Benefit Societies

Following is a listing of the 45 mutual life insurance companies and 5 fraternal benefit societies whose 1978 annual reports to policyholders or certificateholders were included in this survey. Throughout this edition, the mutual life insurance companies and fraternal benefit societies have been combined under the caption "mutual companies" as a matter of convenience. Also, the phraseology utilized in this edition is that more commonly associated with mutual life insurance companies rather than fraternal benefit societies. The companies are listed in terms of the name under which the annual report was issued. Where applicable, the names of significant life insurance subsidiaries and affiliates are also included. Pages upon which excerpts, if any, from the company's annual report may be found are indicated. For ease of reference the word "the" has been eliminated in all cases in which it is part of the company's name.

Acacia Companies
  Acacia Mutual Life Insurance Company

Aid Association for Lutherans

American Republic Insurance Company

American United Life Insurance Company

Baltimore Life Insurance Company

Bankers Life Company

Bankers Life Insurance Company of Nebraska

Berkshire Life Insurance Company

Catholic Order of Foresters

Commercial Travelers Mutual Insurance Company

Connecticut Mutual Life Insurance Company 10, 16, 19

CUNA Mutual Insurance Society, 16
  CUDIS Insurance Society, Inc.

Equitable Life Assurance Society of the United States

Fidelity Mutual Life Insurance Company

General American Life Insurance Company

Guardian Life Insurance Company of America

Home Life Insurance Company

Indianapolis Life Insurance Company

John Hancock Mutual Life Insurance Company, 16

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Lutheran Brotherhood, 49

Lutheran Mutual Life Insurance Company

Massachusetts Mutual Life Insurance Company

Metropolitan Life Insurance Company, 49

Midland Mutual Life Insurance Company, 16

Minnesota Mutual Life Insurance Company

Mutual Benefit Life Insurance Company

Mutual Life Insurance Company of New York, 28

Mutual Of Omaha Insurance Company

Mutual Trust Life Insurance Company

National Guardian Life Insurance Company

National Life Insurance Company of Vermont

Navy Mutual Aid Association

New England Mutual Life Insurance Company, 11

New York Life Insurance Company, 28

Northwestern Mutual Life Insurance

Ohio National Life Insurance Company

Pacific Mutual Life Insurance Company

Pan-American Life Insurance Company

Phoenix Mutual Life Insurance Company

Presbyterian Ministers' Fund

Provident Mutual Life Insurance Company of Philadelphia

Prudential Insurance Company of America, 29

Royal Neighbors of America

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Union Central Life Insurance Company

Western and Southern Life Insurance Company

Woodmen of the World Life Insurance Society

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Property/Casualty Insurance

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Ernst & Whinney

1979 Financial Reporting Trends

Property/Casualty Insurance

A survey of insurance industry reporting practices
as disclosed in 1978 published annual reports.

E&W No. K58154

Other Ernst & Whinney publications:
Banking 1979 Financial Reporting Trends
Property/Casualty Insurance 1979 Financial Reporting Trends
Motor Carriers 1979 Financial Reporting Trends
Savings and Loan 1979 Financial Reporting Trends
GAAP — Stock Life Insurance Companies
GAAP — Deferred Taxes — Stock Life Insurance Companies
Federal Income Taxes — Life Insurance Companies
Property/Casualty Insurance Loss Reserving Practices

Foreword

The 1979 edition of *Property/Casualty Insurance Financial Reporting Trends* represents a supplement to prior editions and attempts to respond exclusively to *trends* in reporting practices. In this text we have addressed only those aspects of financial reporting that respond to current developments and/or accounting requirements of the property/casualty insurance industry. For disclosure examples and alternatives of areas not covered in this text, refer to the 1977 edition of *Fire and Casualty Insurance Financial Reporting Trends*.

We wish to thank the 140 property/casualty insurance companies that furnished copies of the published 1978 annual reports to shareholders or policyholders and the 62 property/casualty companies that furnished copies of their proxy statements issued in connection with annual shareholders meetings for use in this edition of *Property/Casualty Insurance Financial Reporting Trends*. The list of companies covered by the survey ("Appendix I") includes a cross-reference showing the pages which contain excerpts, if any, from each company's annual report or proxy statement.

The results of a similar survey of annual reports issued by life insurance companies for the year ended December 31, 1978 are included in the 1979 edition of *Life Insurance Financial Reporting Trends*.

Included in Section A of *Property/Casualty Insurance Financial Reporting Trends* are brief comments as to reporting and/or accounting requirements which recently became effective or are presently under study. Ernst & Whinney publishes a *Financial Reporting Developments* series which provides a thorough analysis of emerging accounting and reporting topics.

Additional copies of the 1979 and prior editions of *Property/Casualty Insurance Financial Reporting Trends* and copies of *Financial Reporting Developments* may be obtained from the Ernst & Whinney office which serves you or by writing to James F. Zid, Partner, Ernst & Whinney, 1300 Union Commerce Building, Cleveland, Ohio 44115.

Ernst & Whinney Insurance Industry Committee
October 1979

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Section A

General

Introduction

Purpose of survey Like previous editions of *Fire and Casualty Insurance Financial Reporting Trends*, this year's edition is a source of information on current property/casualty insurance financial reporting practices as disclosed in published 1978 annual reports to stockholders and policyholders. The survey is descriptive, not evaluative and makes no recommendations on the form and content of annual reports.

Property/Casualty Insurance Financial Reporting Trends confines itself to reporting practices and problems unique to the property/casualty insurance industry. Those not unique to the industry are thoroughly covered *by Accounting Trends and Techniques*, an annual survey of the annual reports of industrial and commercial corporations made by the American Institute of CPAs.

Readers wishing to trace the historical development of the treatment of a particular item are directed to the 1972 through 1978 annual editions of *Fire and Casualty Insurance Financial Reporting Trends*.

Survey companies The reports of 100 stock property/casualty insurance companies and 40 mutual property/casualty insurance companies have been included in the survey.

Selection of the companies was based generally on a listing of the country's largest property/casualty insurance companies compiled from information in *Best's Insurance Reports (Property-Casualty)*. With a few exceptions, they are the country's largest property/casualty companies. The survey companies and their consolidated subsidiaries represent about 75% of net premiums written by the property/casualty insurance industry.

Survey methods The 1978 annual report of each of the survey companies was coded for various report characteristics and the data were tabulated electronically into the tables included in this book. The reports were analyzed in terms of property/casualty insurance company reporting practices. If a company is a property/casualty insurance company reporting as such, the analysis was straightforward. If a company is a holding company which publishes separate statements of the property/casualty insurance subsidiaries, the separate statements were analyzed. If a company is a holding company publishing only consolidated statements, the property/casualty insurance features were "extracted" from the consolidated statements. Tables indicate the frequency with which the survey companies followed different practices with respect to the item under discussion.

The following table summarizes the companies surveyed.

	Audited	Unaudited	Total
Mutual Companies	13	27	40
Stock Companies	94	6	100
	107	33	140

The distinction between audited and unaudited financial statements is based on the annual reports received. If the financial statements were not accompanied by an accountants' report, the assumption was made that the financial statements have not been audited.

Limitations of survey data Financial reporting practices of property/casualty insurance companies and "congenerics" dominated by property/casualty insurance companies are diverse and do not readily lend themselves to precise classification. As a result, assumptions, conventions and interpretations were necessary to reduce the data to meaningful summaries. Although the data and examples in the survey have been thoroughly checked, no responsibility is assumed for their reliability.

Examples were chosen to illustrate specific accounting or disclosure practices. All examples have been reduced to a uniform format. The examples do not purport to reproduce precisely what was contained in the original report, and since they have been taken out of context, they may not represent appropriate disclosure from the standpoint of the financial statements taken as a whole.

Future Reporting and Accounting Developments

The Financial Accounting Standards Board (FASB) and the Securities and Exchange Commission (SEC) have imposed several reporting and accounting requirements that will be effective for 1979 financial statements and have proposed several additional requirements. If the survey companies complied with these requirements in their 1978 financial statements, such compliance is discussed and illustrated elsewhere in this text. For example, business segments are discussed in Section D, the AICPA Statement of Position on Accounting for Property and Liability Insurance Companies is discussed in Section E, the Foreign Corrupt Practices Act and the SEC proposal on public reporting on internal control are discussed in Section F, and changes to proxy statements are discussed in Section G.

Recent developments by the FASB and SEC that can be expected to significantly affect future financial statements of property/casualty insurance companies include the following:

Reconsideration of Foreign Currency Translation In 1978, the FASB solicited written comments from financial statement preparers, auditors, users, and others about their experiences in applying the first twelve FASB Statements and in using the resulting information. As expected, the majority of comment letters criticized Statement No. 8 on foreign currency translation. The FASB held a meeting in January 1979 with selected parties whose comment letters proposed specific alternatives to various aspects of that Statement.

The FASB has announced it expects to change Statement No. 8 on foreign currency translation. According to its latest thinking, financial statements of foreign subsidiaries would be translated using the rate of exchange existing at each balance sheet date (current rate method) — which is quite different from the present monetary/nonmonetary approach. While popular in the United Kingdom and other parts of the world, the current rate method is essentially untried in the U.S. and was not one of the GAAP alternatives prior to Statement No. 8.

Probably a more important change, in response to the criticism that Statement No. 8 can result in widely fluctuating earnings, is the FASB's intention to move the translation adjustments outside of "operating income." The following classifications are now favored by the FASB:

> As a special item near the end of the income statement, somewhat like an extraordinary item, or
>
> As a direct adjustment to stockholders' equity, similar to an allowance for declines in value below cost of long-term investments in marketable equity securities.
>
> Foreign currency transactions of U.S. companies (e.g., a receivable denominated in French francs) would still follow the monetary/nomonetary translation method. And any adjustments relating to these transactions would continue to be included in operating income.
>
> The FASB still has a number of details to work out and other issues to address (such as the possibility of exceptions from the current rate method for certain items, treatment of hedging transactions, and disclosures) before issuing a formal proposal to revise Statement No. 8, slated for the third quarter of 1979.

Conceptual Framework for Accounting and Reporting The conceptual framework project has been described as providing a constitution for accounting. It will result in basic documents, called Statements of Financial Accounting Concepts, that will provide support and guidance for developing and applying financial accounting standards. The initial discussion memorandum contemplated four phases of the conceptual framework project:

> Objectives of financial reporting by business enterprises — identify the purposes, users, and general nature of general purpose financial reporting.
>
> Elements of financial statements — develop definitions of assets, liabilities, etc.
>
> Qualitative characteristics of financial information — identify and clarify the characteristics (e.g., reliability, relevance, timeliness) that should govern the development and application of accounting standards. Materiality, which was previously a separate agenda topic, will also be considered here.
>
> Measure of financial statement elements — select the basis for measuring assets, liabilities, etc. (e.g., historical cost, current cost).

In November 1978 the FASB issued Statement of Financial Accounting Concepts No. 1 on "Objectives of Financial Reporting by Business Enterprises." The major difference between the final Statement and the December 1977 exposure draft was that the elements section (i.e., definition of assets and liabilities, owners' equity, revenues, expenses, gains, losses, and earnings) of the draft was not included in the Statement. Due to the generally negative public reaction to the elements proposals, the FASB will expose another draft for further comment later in 1979. Measurement proposals are covered below. Qualitative characteristics should be exposed for comment during the third quarter of 1979. The FASB also has identified four more phases of the project described below.

Earnings report — re-examine the income statement and determine the most appropriate method of presenting earnings information. The old debate between the "current operating" and "all inclusive" theories of income statement presentation that was settled by APB Opinion No. 9 will be revived. A discussion memorandum is scheduled for the third quarter of 1979.

Financial reporting/financial statements — identify what types of information should be disclosed outside financial statements and also determine whether it is meaningful for small or closely held companies to make all the financial statement disclosures required by GAAP. A position paper, scheduled for exposure in the third quarter of 1979, will propose criteria for making decisions on these two issues.

Funds flow and liquidity reporting — establish concepts and standards for reporting funds flow and liquidity, including a reexamination of APB Opinion No. 19, "Reporting Changes in Financial Position."

Accounting recognition — develop criteria for determining when to recognize elements of financial statements (e.g., when does an obligation become a liability).

FASB Statement No. 33 *Financial Reporting and Changing Prices*, issued in October 1979 is effective for fiscal years ended on or after December 25, 1979. However, current cost information for fiscal years ended before December 25, 1980 may be presented in the first annual report for a fiscal year ended on or after December 25, 1980. The Statement applies to public companies having $1 billion in assets or $125 million of inventories and gross properties (including investment real estate). However, all companies are encouraged to make the required disclosures.

The Statement establishes standards for reporting the effects of "general inflation" and changes in the prices of certain specific types of assets. General inflation is described as a rise in the general level of prices or a decline in the general purchasing power of the dollar. According to the Board, users of financial statements need information about measurements that are made in units having the same general purchasing power because conventional financial statements make no direct allowance for the variability of the monetary unit of measure. Thus the statement requires supplementary disclosure using "constant dollar accounting" and the purchasing power gain or loss on net monetary items.

Although special problems arise in the application of the provisions of the Statement to financial institutions such as insurance companies, the FASB has concluded that the disclosure requirements for those institutions should be similar to the ones required for commerical and industrial companies.

While the Board agreed with an Insurance Task Group that it had formed to study implementation and measurement problems for insurance companies that historical cost/constant dollar and current cost adjustments would often be immaterial for insurance companies, it concluded that no special provisions or exemptions were needed to deal with their particular situation. The Board provided, however, that the application of Statement No. 33 is qualified by the more general provision that the requirements for disclosure need not be applied to immaterial items. Therefore, historical cost/constant dollar and current cost adjustments or disclosures need not be presented if they have no material effect on income from continuing operations.

The computation of the purchasing power gain or loss on net monetary items requires a classification of assets and liabilities as either monetary or non-monetary items. For insurance companies, the difficulties in classifying certain assets and liabilities as monetary or non-monetary (i.e., reserves, claim liabilities, deferred policy acquisition costs and unearned premiums) is more complex. The Board, in disagreeing with the recommendations of the Insurnce Task Group to classify all assets and liabilities as monetary classified the following insurance company assets and liabilities as non-monetary:

Common stocks not accounted for on the equity method

Convertible preferred stock or bonds if the market values of the securities are determined primarily as a stock

Equity investments in unconsolidated subsidiaries or other investees

Goodwill

Other intangible assets and deferred charges

Home office and agency buildings, improvements and equipment

Investment real estate.

Property/casualty deferred policy acquisition costs

Property/casualty unearned premiums.

The reasoning furnished by the Board that property/casualty unearned premiums were non-monetary was that they were principally obligations to furnish insurance coverage and the dollar amount of payments to be made under that coverage might vary materially due to changes in specific prices. Deferred policy acquisition costs were considered related to the unearned premium reserves and consequently also considered to be non-monetary.

Insurance companies are also required to present a five-year summary of selected financial data to aid users in assessing trends. In addition to the required current year historical cost/constant dollar and current cost information previously discussed, this summary must include the following expressed in constant dollars:

Net assets at year-end. If material historical cost and current cost/constant dollar net asset amounts would also be required (net assets reported in the financial statements adjusted for the revised amounts of inventories and properties — including income producing properties).

Per share amounts of income from continuing operations. Again, if material historical cost and current cost/constant dollar computations would be required.

Net revenues

Cash dividends per share

Market price per share at year-end

Average consumer price index

Only revenues, dividends, market price and consumer price index disclosures are required to be reported for years before 1979.

Ernst & Whinney has prepared a publication (E&W No. 39111) to assist companies in complying with the general disclosure requirements of the Statement. In addition, we plan to provide a publication which contains a more thorough analysis of the Statement as it relates to insurance companies in the near future.

Interim Financial Accounting and Reporting "Quarterly earnings for most companies," says the FASB, "would be changed under any of the alternatives considered in this discussion memorandum." The memorandum is part of an FASB project to make quarterly accounting and reporting more uniform and thus more useful and credible to users.

The FASB's analysis evaluated existing GAAP, such as APB Opinion No. 28, and inquired into the needs of quarterly report users. It covered these broad areas:

Conceptual: Whether the objectives, uses, and elements of interim reports should be the same as those of annual reports.

Disclosure: What financial information should be included in quarterly reports.

Applicability: Whether some companies should be exempted, and if so, which ones.

Measurement: Which accounting approach should be used to provide uniformity among enterprises — the "integral," the "discrete," or a combination of the two.

The key question is how annual expenses should be charged to interim periods. Under the "integral" approach emphasized in APB Opinion No. 28, each interim period in a fiscal year is assigned a proportionate amount of estimated annual expenses based on sales volume or some other activity basis. By contrast, under the "discrete" approach each part of a year is considered an independent reporting period. Therefore, annual expenses would be recognized as incurred, applying the same principles as for annual reports.

A third possibility, the "combination view," would establish criteria for applying the integral approach to some annual expenses and the discrete approach to others. For example, specific rules might call for income tax expense to be allocated based on the expected annual rate and major repairs charged to expenses as incurred.

This project has been deferred pending further progress on the conceptual framework project.

Guidelines and Safe Harbor for Forecasts The SEC has issued guidelines to encourage companies to issue financial forecasts. The guides are very similar to those proposed two years ago, and they apply to all public forecasts, whether included in an SEC filing such as Form 10-K or a registration statement, or simply released to the press. Issued later was a "safe harbor" rule to limit a company's liability in case a projection made in good faith and prepared on a reasonable basis turns out to be inaccurate.

What information should be given in forecasts is not specified, but the SEC suggests that revenue, net income, and per-share amounts usually would be the minimum. There is also a warning against "selective disclosure" which can be misleading; an example would be forecasting greatly increased revenues without mentioning net income. The period forecasted is up to management.

The guides encourage but do not require disclosing assumptions or subsequently comparing actual results with those forecasted. Registrants have a duty to update forecasts should there be major changes and investors are continuing to rely on the projections. Also, a company may stop publishing forecasts without giving any reason, but must have some reason to start up again.

Third-party review — by a CPA, for instance — is permitted but not required. If referred to in an SEC filing, the extent of review and the reviewer's qualifications and relationship to the company should be mentioned.

The safe harbor rules differ somewhat from those originally proposed, particularly the burden of proof; rather than requiring a company to prove that a projection had a reasonable basis and was disclosed in good faith, the SEC decided it should be up to the party claiming injury to prove the opposite. A second change is the explicit inclusion of management's plans and objectives and other statements of future economic performance, such as in the discussion of the summary of earnings or quarterly statements, to encourage companies to project other "soft" information. Also, third parties who review and report on projections are protected by the rules.

Redeemable Preferred Stock Redeemable preferred stocks are an increasingly popular form of financing (e.g., in purchase business combinations) because they add to a company's equity, not its debt. However, the SEC will require special treatment for them on the balance sheet, which it already has requested in certain companies' filings. The Commission is satisfied to leave to the FASB the question of whether this stock is a liability, but it wants to emphasize that the stock does create definite cash payment requirements.

Accounting Series Release No. 268, which is effective for financial statement periods ending after September 14, 1979, requires the following categories in the equity section of a balance sheet: redeemable preferred stock — stock which must be redeemed or is redeemable at the option of the holder; non-redeemable preferred stock; common stock; and all other stockholders' equity accounts. Redeemable preferred stock cannot be included under the general title of "stockholders' equity" nor can amounts related to it be included in total stockholders' equity. In addition to the usual disclosures (e.g., general description of issue, dividend rate, etc.) a note to the financial statements would include any changes in the amounts outstanding, the total redemption for each of the next five years, and the treatment of the difference between carrying value and redemption amount.

Business Combinations and Purchased Intangibles An August 1978 discussion memorandum is the first step in the Board's reconsideration of APB Opinion No. 16, "Business Combinations," and Opinion No. 17, "Intangible Assets." It offers no conclusions, but lists 38 issues and alternative solutions. There are ten appendices which expand on several of the issues and describe the results of research done by the FASB staff and others.

Matters covered include when or if the pooling of interests and purchase methods are to be used. Also outlined are the accounting for identifiable assets and liabilities, both tangible and intangible, in a combined enterprise's financial statements, accounting for goodwill, and determining and allocating the aggregate cost if a new accounting basis is adopted.

For a more complete discussion of these and other emerging accounting and reporting issues, refer to the Ernst & Whinney *Financial Reporting Developments* series of pamphlets which are available from the Ernst & Whinney executive serving you.

Section B

Information Included in Annual Reports

Most annual reports include the financial statements of the company, related notes to the financial statements, and an accountants' report on the financial statements and notes. In addition, many companies disclose significant financial data in the executive message, additional text, tabular presentations, and charts and graphs. This section discloses the basis of financial statements presented by the survey companies, the types of accountants' reports presented and the types of financial information included in the survey company annual reports to shareholders and policyholders other than that included in the formal financial statements.

Financial statements

The number of companies presenting their financial statements on a GAAP basis has remained fairly stable as indicated by Table B-1.

Table B-1. Basis of Presentation

	Stock Companies		Mutual Companies	
	1978	1977	1978	1977
Statutory basis	10%	9%	90%	92%
GAAP basis	90	91	10	8
	100%	100%	100%	100%
Number of survey companies	100	100	40	40

Accountants' reports

Of the 140 fire and casualty insurance companies covered by this survey, the financial statements of 107 or 76 percent of the total, were accompanied by accountants' reports. The number and percentage of audited reports may be summarized as follows:

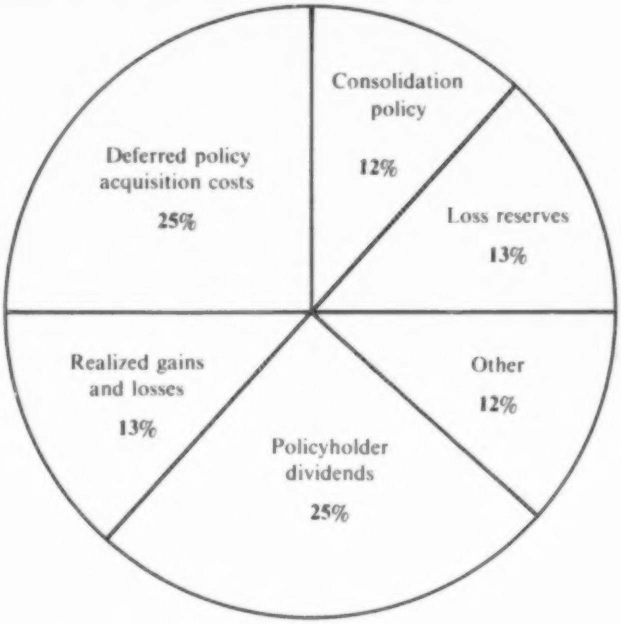
	Number of Survey Companies Audited				Percentage of Total Companies			
	1978	1977	1976	1975	1978	1977	1976	1975
Stock Companies	94	96	97	96	94	96	97	96
Mutual Companies	13	14	18	14	33	35	45	35

Table B-2 and Figure B-1 summarize the accountants' opinions that contained an exception as to consistency.

Table B-2. Accountants' Reports — Consistency Exceptions

	Stock Companies		Mutual Companies	
	1978	1977	1978	1977
Reports containing one or more consistency exceptions	4%	13%	8%	14%
Reports containing no consistency exceptions	96	87	92	86
	100%	100%	100%	100%
Number of accountants' reports	94	96	13	14

Figure B-1. Consistency Exceptions in Accountants' Reports



Based on 8 consistency exceptions in 5 accountants' reports.

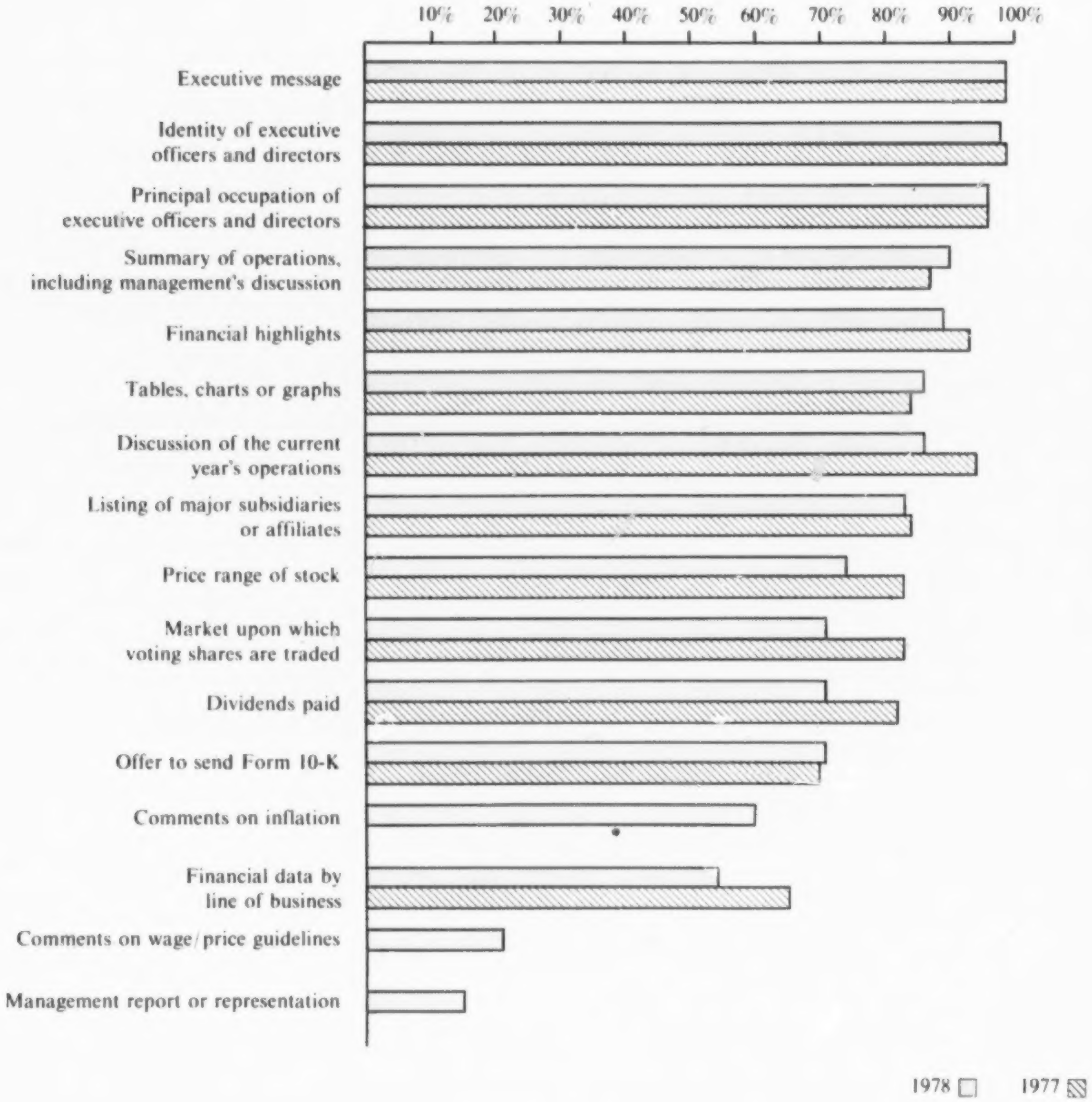
There were three stock companies of the 94 audited survey companies whose accountants' opinions were "subject to" significant uncertainties affecting the 1978 financial statements. There were two stock companies (of 96) receiving a "subject to" opinion in 1977. No mutual companies in the 1978 or 1977 survey received an accountants' report which was "subject to" an uncertainty.

Information other than formal financial statements presented in annual reports

Some of the information other than formal financial statements disclosed by the survey companies in their annual reports was as a result of pronouncements by the FASB and/or its predecessor the Accounting Principles Board. Other information was disclosed in compliance with rulings of the SEC. However, much of the disclosure appeared to be completely voluntary.

Figures B-2 and B-3 summarize the percentage of stock and mutual companies presenting selected information in their 1978 and 1977 annual reports.

Figure B-2. Information Presented in Annual Reports — Stock Companies



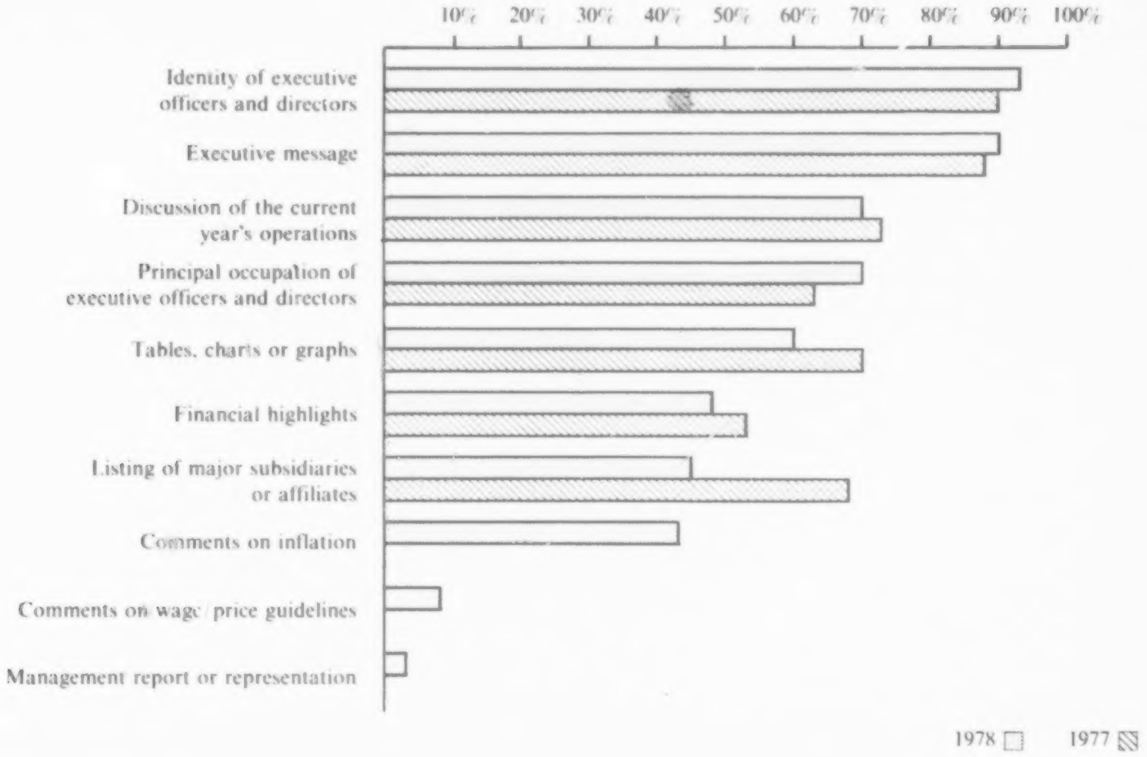


Figure B-3. Information Presented in Annual Reports — Mutual Companies

EXAMPLES Topics in executive messages or text portion of annual report

AMERICAN UNIVERSAL INSURANCE COMPANY
(Executive Message)

The most recent scourge that has attacked liability insurers is the attempt to impose on insurance companies "punitive damage" claims--and in some instances, certain companies have voluntarily assumed this additional liability. According to Webster's Third New International Dictionary, the words mean: "Damages awarded in excess of compensatory or nominal damages to punish a defendant for a gross wrong." However, said the California Supreme Court, "If [the insured] were permitted to shift the burden to an insurance company, punitive damages would serve no useful purpose. Such damages do not compensate the plaintiff for an injury since compensatory damages already have made the plaintiff whole and there is no point in punishing the insurance company; it has done no wrong." This is a hopeful change in the stance of the Courts--particularly, the California Courts who have been leaders in liberal interpretations of the plaintiff's rights.

AMERICAN BANKERS INSURANCE COMPANY OF FLORIDA
(Executive Message)

As we reported in last year's letter, we planned to discontinue writing the Home Warranty Program sponsored by the National Association of Home Builders. This became effective on June 30, 1978; and we arranged to have the new insurer assume our outstanding policies. The transfer of liability to the other insurer was treated as an assumption rather than reinsurance, resulting in a decrease in direct premiums written of approximately $9,500,000. The transaction also resulted in a profit of $2,000,000 being realized in 1978, rather than over the next ten years.

Another goal of management was to establish adequate loss reserves on the discontinued lines of business and accounts on which we have had adverse loss developments in recent years. Our loss reserves were re-evaluated during the year by independent consulting actuaries and our own staff. Reserves have been increased to levels which are believed to be adequate. During the fourth quarter, we arranged for other companies to assume loss reserves totaling more than $6,500,000, thereby eliminating the possibility of adverse development on two Reinsurance Assumed accounts. Loss reserving is very subjective, and only time will tell how accurate we have been in setting reserves. We feel comfortable, however, that any future development will not materially affect our results.

SRI CORPORATION
(Text)

At the end of the year the National Association of Insurance Commissioners adopted a position paper on President Carter's anti-inflation program. While at this time the full effect of this on our company cannot be evaluated, preliminary indications of restrictions which may affect our ability to secure needed rate increases cause some concern. As an industry where inflation has an immediate and direct effect we are naturally supportive of the effort. At the same time, we must require pricing flexibility to protect ourselves against costs over which we have no control.

CRITERION INSURANCE COMPANY
(Executive Message)

Criterion has signified its intention to cooperate with President Carter's voluntary anti-inflation program. We do not believe the program will be unduly restrictive unless it is used as an excuse by regulators to deny justified rate increases.

IOWA NATIONAL MUTUAL INSURANCE COMPANY
(Executive Message)

The President's price guidelines, although labeled voluntary and undefinitive as to any future form, have already created regulatory pressure to maintain premium rates close to present levels. In an inflationary economic climate, this is a severe threat to our industry's profitability. Our product, unlike that of most other businesses, is priced on historical data which, in inflationary times, obviously can result in inadequate rates. It is all the more important, therefore, that our customers be selected carefully to ensure that the risks which we protect are the ones which have, in their nature, the lowest overall claim potential. Apparently a great many politicians do not understand, or will not admit, that rising wages and prices are not the cause of inflation, but are symptoms of it. Government is the engine which creates inflation, through budgetary deficit spending and its natural child--excessive expansion of the supply of money. Until enough members of Congress become educated or frightened enough to recognize these economic truths, we have little to hope for in our desire for a stable economic environment.

CONTINENTAL CORPORATION
(Text)

...under the Free-Trade Zone setup, insurers who qualify are exempt from rate and form regulation on commercial lines of coverage with premiums of $100,000 or more. And some smaller, more exotic coverages are also eligible. Some of this business is beginning to flow through, and a few lines are being written, but it will take time for the volume to build.

The Exchange is a lot more complicated to put together-and it's important, incidentally, to remember that the Free-Trade Zone and the Exchange are completely different entities. Either could have been created without the other.

The Exchange would write three kinds of business: reinsurance of all kinds, insurance on risks located outside the United States and special risks that are eligible for the Free-Trade Zone but are not accepted by underwriters there. There will be a broker membership. The actual underwriting will be done by syndicates. These syndicates will be made up of insurance companies, brokerage houses, individuals and even companies not normally engaged in insurance. They probably will specialize in specific categories of insurance. . . . Among other things, the Exchange opens the door to a large number of foreign insurers who want to compete for this kind of business, but don't have any effective way of doing it other than starting a company in the United States. That new financial capacity, in turn, should attract more business into New York. . . business that would normally flow right to foreign markets may very well check New York first. We will take full advantage of this, but, at the same time, we will strengthen the other ways we have of participating in this business. . . . This should complement Lloyd's. We've got to realize that Lloyd's has a level of acceptance, underwriting skill and experience that just cannot be duplicated overnight.

HOLYOKE MUTUAL INSURANCE COMPANY IN SALEM
(Executive Message)

The climate of the industry is continuing to change rapidly; it will mandate that in addition to watching the combined loss and expense ratios, management will need to be more cognizant of and adaptable to the conditions that affect these ratios.

The burden of social programs, such as Assigned Risks, FAIR Plans, Auto Facilities, Insolvency Funds, Windstorm Pools, etc., has had a pronounced effect on the marketing of insurance and the industry's ability to respond to consumer and legislative demands. A concerted effort will be maintained this coming year to address these social demands on our business. I am sure the insurance industry will survive these external pressures rather than being consumed by negativism.

ST. PAUL COMPANIES, INC.
(Executive Message)

We are complying with President Carter's wage and price guidelines. As long as other businesses, the various levels of government and organized labor generally also comply, we expect to cope reasonably well.

What will hurt everyone is the chance that government units will fail to control their spending. That is even more crucial to the fight against inflation than wage-price controls.

CNA FINANCIAL CORPORATION
(Text)

Redlining charges against insurance companies regularly appear in the news. But what wasn't proclaimed in banner headlines during 1978 was CNA's unique program designed to meet head on the problem of providing insurance coverages for homeowners in Chicago neighborhoods.

This program features the use of the safety group concept--placing the primary responsiblity for fire prevention and safety training on a Chicago community organization and the insureds.

"Without charges and countercharges, without a flurry of press releases, without self-serving statements, without regulatory prodding, blue-ribbon fact-finding committees, or legislative oratory, CNA and The Organization of the Northwest (TON) devised a joint urban homeowners program...

"CNA might well have refused to meet with TON at all, as did many other companies who are suspicious of any community group. Instead, CNA found a way to work with TON by adapting a commercial insurance concept to personal lines--the safety group approach.

"Some might call CNA's response 'socially responsible'. We call it good business...There is a lot of good business on the northwest side of Chicago--many responsible homeowners who take care of their property and are interested in maintianing and upgrading their communities...

"CNA is not giving anything away. It is not relaxing its underwriting standards. The company expects to make a profit on the business it writes under the new program.

"We hope it does. Perhaps then other insurance companies can find ways to be 'socially responsible' in our cities."

The Illinois Underwriter
November, 1978

CRUM AND FORSTER
(Text)

The extraordinary inflation in insurance costs during the past several years has broadened and intensified the public debate over the nature and scope of insurance regulation.

According to a recent Federal Trade Commission study, insurance premiums, excluding non-health Social Security taxes, now consume more than 11.6 per cent of the average American consumer's disposable personal income. As the insurance portion of the public's budget has increased, so has federal and state scrutiny of the insurance business.

The public and insurance regulators are challenging the validity of the rating classification and territorial systems through which insurance costs are distributed among premium payers. Federal agencies and some members of Congress are reexamining the industry's 34-year-old exemption from the antitrust laws and questioning Congress' decision to delegate insurance regulation to the states. The industry itself is seeking ways of accommodating the social demands of the public with the economic imperatives of the insurance business.

Crum and Forster's state and federal government affairs activity is premised on our beliefs that continued state regulation of the insurance business is in the best long-term interests of policyholders, stockholders, companies, and the public, and that our regulators should rely on competition to achieve the full availability of insurance at affordable prices.

Insurance market problems tend to reflect a variety of local conditions--the statutory and regulatory framework in which the business operates, the frequency and severity of claims and losses, the attitude of the insured public, etc.--and both the industry and the states are equipped to deal with these problems where they arise.

State insurance regulation is diverse and pluralistic, reflecting the varying needs of the public and providing 50 laboratories in which innovative approaches to regulation can be tested and applied. Deficiencies can be corrected promptly, as the steady improvement in state regulation shows.

We are convinced that the flexibility and responsiveness of state regulation would be lost, and both the public and the industry ill-served, if insurance regulation were transferred either wholly or in part to the Federal Government. We are committed, therefore, to working with the states to so strengthen local regulation as to make Federal intervention unnecessary.

We must have the assurance that rates will be sufficient to meet expected losses and expenses if we are to retain our ability to compete in the insurance marketplace. We believe that competition is the best regulator of rate levels, and that minimal state interference in the marketing and underwriting of insurance is the best means of assuring the availability and affordability of insurance products.

Our primary legislative objective in the states is the enactment of rating laws which will permit insurance prices to rise and fall with the costs of the underlying goods and services for which insurance pays and the demands of a competitive market. We believe that we, our producers, and our customers are best served by a rating law which matches insurance prices to economic realities rather than to political exigencies.

We believe that public demands for the incorporation of social considerations into insurance cost distribution systems and for guaranteed insurance availability can best be accommodated where adequate aggregate rate levels are assured by law.

Crum and Forster has indicated its willingness to comply with the wage and price guidelines in the President's Anti-Inflation Program, in large part because we believe that the goals of the guidelines are consistent with those of the competitive rating laws we espouse--to keep prices as close as possible to the underlying costs.

Our concern about the affordability of insurance products is also reflected in our support of programs and policies to reduce losses and contain costs. We have urged the enactment of national standards for state no-fault automobile insurance laws to curtail the waste in the fault system of accident compensation; we have opposed federal legislation that would substantially increase workers' compensation premiums without eliminating costly abuses; and we have advocated the installation of passive restraint systems in automobiles, the promulgation of standards to reduce vehicular property damage, and the implementation of effective controls on the utilization and costs of health care benefits.

REPUBLIC FINANCIAL SERVICES, INC.
(Text)

Arson is out of hand, but there is hope. At last it is being recognized as a major crime, and efforts are being made to cope with its impact.

Arson has increased tremendously over the past decade and its annual toll includes an estimated 1,000 deaths, 10,000 injuries, and property damage as high as $15 billion; more than $2 billion of the property damage is insured. A conservative estimate of the annual cost of arson by the insurance industry indicated that it is approximately equal to the combined loss from robbery, burglary, larceny and auto theft.

Unfortunately, arson has been an orphan crime, sidestepped by both the police departments and the fire departments. The firefighters have neither the training nor time to search for arsonists, and the police investigators have avoided this area of enforcement because it is so difficult to obtain convictions.

We delude ourselves if we think arson is a "victimless" offense that hurts only insurance companies and large anonymous institutions. This just isn't so; it is a serious crime and it hurts everyone. Unfortunately, insurance companies have been forced to participate in the abuse of compulsory insurance pools set up under state and federal laws to provide coverage at inadequate prices in order to protect improperly maintained properties. As long as it is easy to obtain insurance on "firetrap" properties, organized crime will find arson-for-profit a rewarding activity.

A glimmer of hope, in this otherwise depressing set of circumstances, is a new level of awareness. Efforts are being made to obtain some meaningful legislation to assist law enforcement authorities. Many studies have concluded that the poor record of arrests and convictions for arson is due to inadequacy of existing laws. We must revise penal codes to ease the prosecutors' tasks in dealing with this subject, because no fire or police agency--no prosecutor or insurance company--can possibly control the spread of this condition without the imposition of penalties for those who commit arson or aid, counsel, or produce a firesetter.

Prosecutors have been further hampered by legal and contractual restrictions against release of information by investigators, insurance companies, and innocent insureds. There is no question that this information might be valuable to law enforcement authorities, but anyone who cooperates fully is subject to possible criminal charges or other forms of legal harassment and unfounded claims for punitive damages. Fortunately, during the past few years, several states have passed effective arson reporting-immunity laws, and Congress has made arson a Number One crime. Much has been accomplished, but much remains to be done.

Hopefully, the general public will come to realize that this isn't an insurance crime; it is a crime against society, and people are dying because of the complacency. We have remained in the forefront of this effort to protect the public against the murders committed by arsonists and to contribute, to the best of our ability, to a reduction in the tremendous economic tax that is being imposed on the insuring public.

MOTOR CLUB OF AMERICA
(Executive Message)

Due to the insolvencies of some insurance companies and other insurance companies withdrawing from New Jersey because of inadequate insurance rates, the New Jersey Automobile Insurance (Assigned Risk) Plan now covers over 1,000,000 motorists, the largest of such Plans in the country. This is involuntary business which must be written. We are required, as are all other companies doing business in New Jersey, to accept such assignments in proportion to our voluntary market writings.

In 1978, 23,965 New Jersey drivers who were unable to obtain automobile insurance in the voluntary market because of poor driving records or other reasons were assigned to and became policyholders of our Company. This volume of insurance business was $12,323,260--or 32.1% of our total New Jersey automobile insurance premium volume. To highlight the acceleration of New Jersey Assigned Risk business, the 1978 volume was 241.3% greater than the $3,610,324 assigned in 1976.

New Jersey Automobile Insurance (Assigned Risk) Plan written premiums generated losses in 1977 and 1978 of $8,062,000 on a volume of $22,185,000.

The company had a gain of $346,000 on voluntary New Jersey automobile insurance business in 1978, and this profit, subtracted from the New Jersey Automobile Insurance (Assigned Risk) Plan losses, assisted in reducing the total loss.

EXAMPLES Accountants' reports qualified as to uncertainties or consistency

CSE CORPORATION

We have examined the consolidated balance sheets of CSE Corporation and subsidiaries as of December 31, 1978 and 1977, and the related consolidated statements of income, shareholders' equity and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary under the circumstances.

As discussed in Note 10 to the financial statements, the company's property and liability subsidiary is defendant in several lawsuits. The ultimate outcome of the lawsuits cannot presently be determined, and no provision for any liability that may result has been made in the financial statements.

In our opinion, subject to the effects, if any, on the consolidated financial statements of the ultimate resolution of the matter discussed in the preceding paragraph, the consolidated financial statements referred to above present fairly the consolidated financial position of CSE Corporation and subsidiaries at December 31, 1978 and 1977, the consolidated results of their operations and the consolidated changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

BELLEFONTE INSURANCE COMPANY

We have examined the statements of consolidated financial position of Bellefonte Financial Corporation and subsidiaries as of December 31, 1978 and 1977, and the related consolidated statements of income and retained earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the above-mentioned financial statements present fairly the financial position of Bellefonte Financial Corporation and subsidiaries at December 31, 1978 and 1977, and the results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis except for the change in 1978, with which we concur, in the method of accounting for deferred acquisition costs as described in Note 1 to the financial statements.

PHILADELPHIA CONTRIBUTIONSHIP FOR THE INSURANCE OF HOUSES FROM LOSS BY FIRE

We have examined the consolidated statutory statements of assets and liabilities of The Philadelphia Contributionship for the Insurance of Houses from Loss by Fire and wholly-owned subsidiary as of December 31, 1978 and 1977, the related consolidated statutory condensed operating statements and the consolidated statutory statements of changes in financial position for the years then ended and the consolidated list of securities owned at December 31, 1978. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The Company presents its financial statements in conformity with accounting practices prescribed or permitted by the Insurance Department of the Commonwealth of Pennsylvania. The effects on the accompanying financial statements of the variances between such practices and generally accepted accounting principles are described in note 2.

In our opinion, the aforementioned consolidated statutory financial statements present fairly the financial position of The Philadelphia Contributionship for the Insurance of Houses from Loss by Fire and wholly-owned subsidiary at December 31, 1978 and 1977, the results of their operations and changes in financial position for the years then ended, and the securities owned at December 31, 1978, in conformity with insurance accounting practices prescribed or permitted under statutory authority and, except for the effects of the variances described in note 2, in conformity with generally accepted accounting principles. Such practices and principles, except for the change made in 1978 in the method of calculating the provision for dividends to perpetual policyholders as described in note 1 (c), have been applied on a consistent basis.

CITY INVESTING COMPANY

We have examined the balance sheet of City Investing Company (parent company only) and of City Investing Company and subsidiaries as of December 31, 1977 and 1978 and the related statements of income, retained earnings, unrealized depreciation of stocks held by insurance companies and changes in financial position for each of the five years in the period ended December 31, 1978. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of City Investing Company (parent company only) and City Investing Company and subsidiaries at December 31, 1977 and 1978, and the results of their operations, and changes in retained earnings, unrealized depreciation of stocks held by insurance companies and changes in financial position for each of the five years in the period ended December 31, 1978, in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the change, with which we concur, in accounting for insurance acquisition costs as explained in note (1) to the financial statements, except for the change, with which we concur, in accounting for catastrophe reserves of insurance companies as explained in note (3) to the financial statements.

EMPLOYERS MUTUAL LIABILITY INSURANCE COMPANY OF WISCONSIN

We have examined the consolidated statutory balance sheets of Employers Mutual Liability Insurance Company of Wisconsin as of December 31, 1978 and 1977, and the related consolidated statutory statements of operations, policyholders' security funds and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The Company presents its financial statements in conformity with accounting practices prescribed or permitted by the Insurance Department of the State of Wisconsin, except that the Company has not established a liability for excess of statutory reserves over statement reserves as described more fully in note 2 of notes to statutory financial statements.

In our opinion, except for the effect on the statutory financial statements of not providing for the liability for excess statutory reserves over statement reserves as discussed in the preceding paragraph (note 2 to statutory financial statements), the aforementioned statutory financial statements present fairly the consolidated financial position of Employers Mutual Liability Insurance Company of Wisconsin and subsidiaries at December 31, 1978 and 1977, and the results of their operations and the changes in their financial position for the years then ended in conformity with insurance accounting practices prescribed or permitted under statutory authority consistently applied during the period except for the change, with which we concur, in the method of determining the provision for unpaid losses on certain discontinued business as described in note 5 of notes to statutory financial statements.

The variances between the accounting practices as described in the second preceding paragraph and generally accepted accounting principles are described in note 1 of notes to statutory financial statements. Because the effects of such variances on the accompanying financial statements have not been determined by the Company, we do not express an opinion as to whether the accompanying financial statements differ materially from those that would result from the application of generally accepted accounting principles.

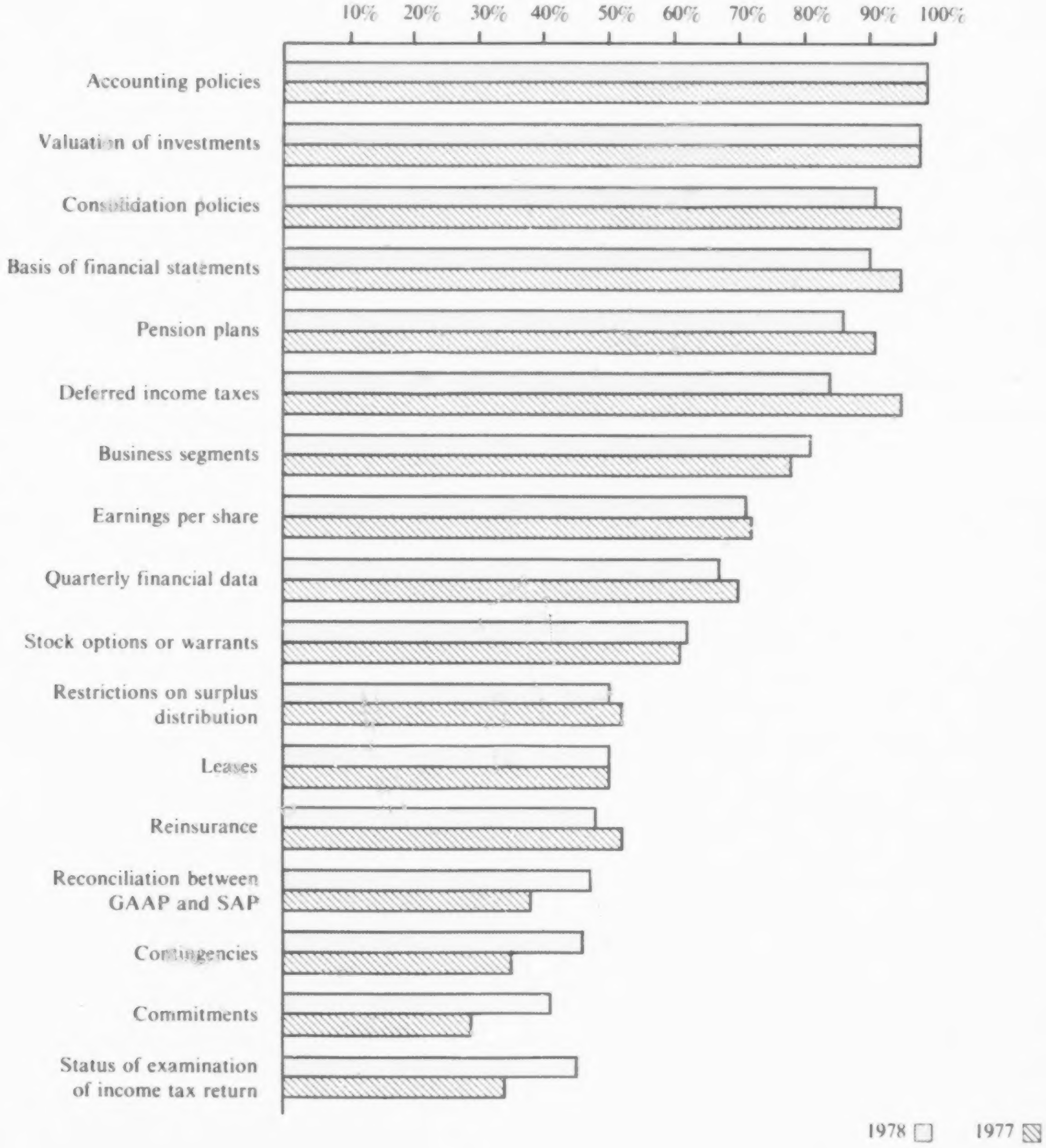
Section C

Selected Footnote Disclosures

Figure C-1 summarizes the topics discussed in the notes to financial statements of stock companies surveyed in 1978 and 1977. Similar information is shown for audited mutual companies in Figure C-2.

Figure C-1. Topics Discussed in Notes to Financial Statements — Stock Companies

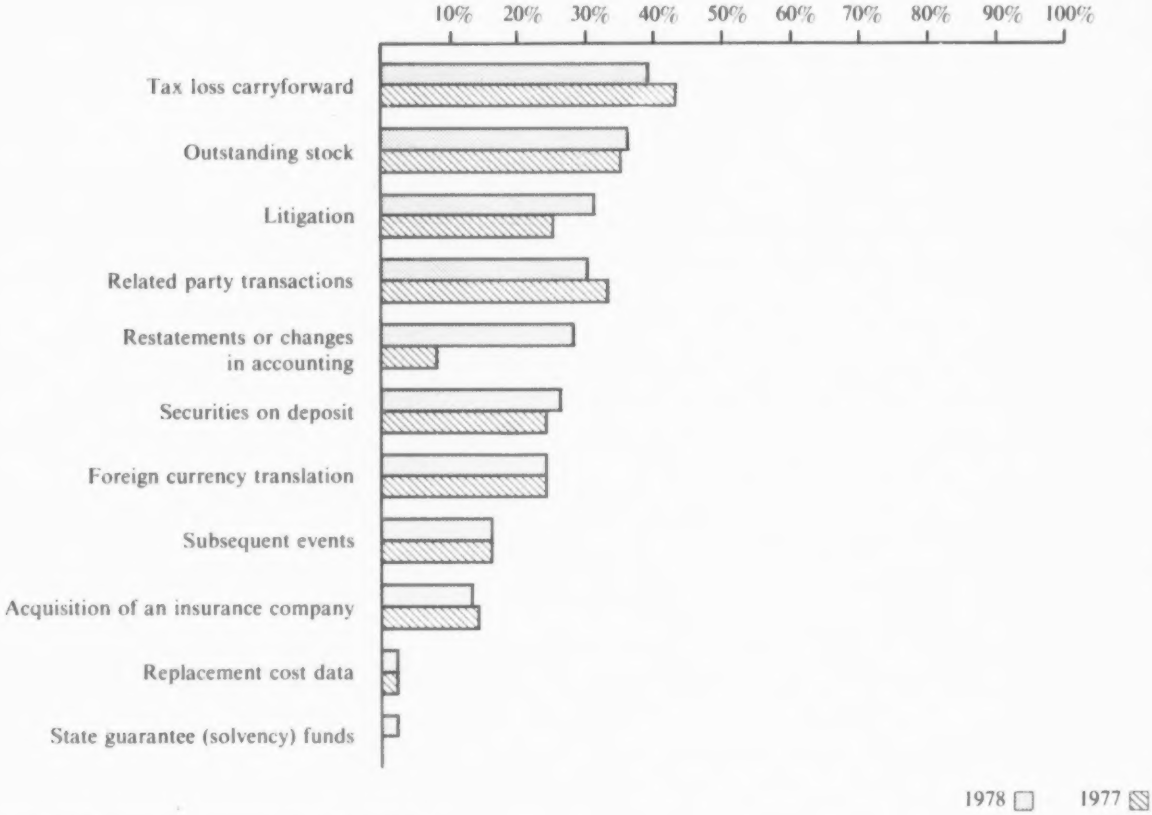
Percentage of stock companies which discussed the following topics in notes to financial statements.



(continued)

Figure C-1. Topics Discussed in Notes to Financial Statements — Stock Companies (continued)

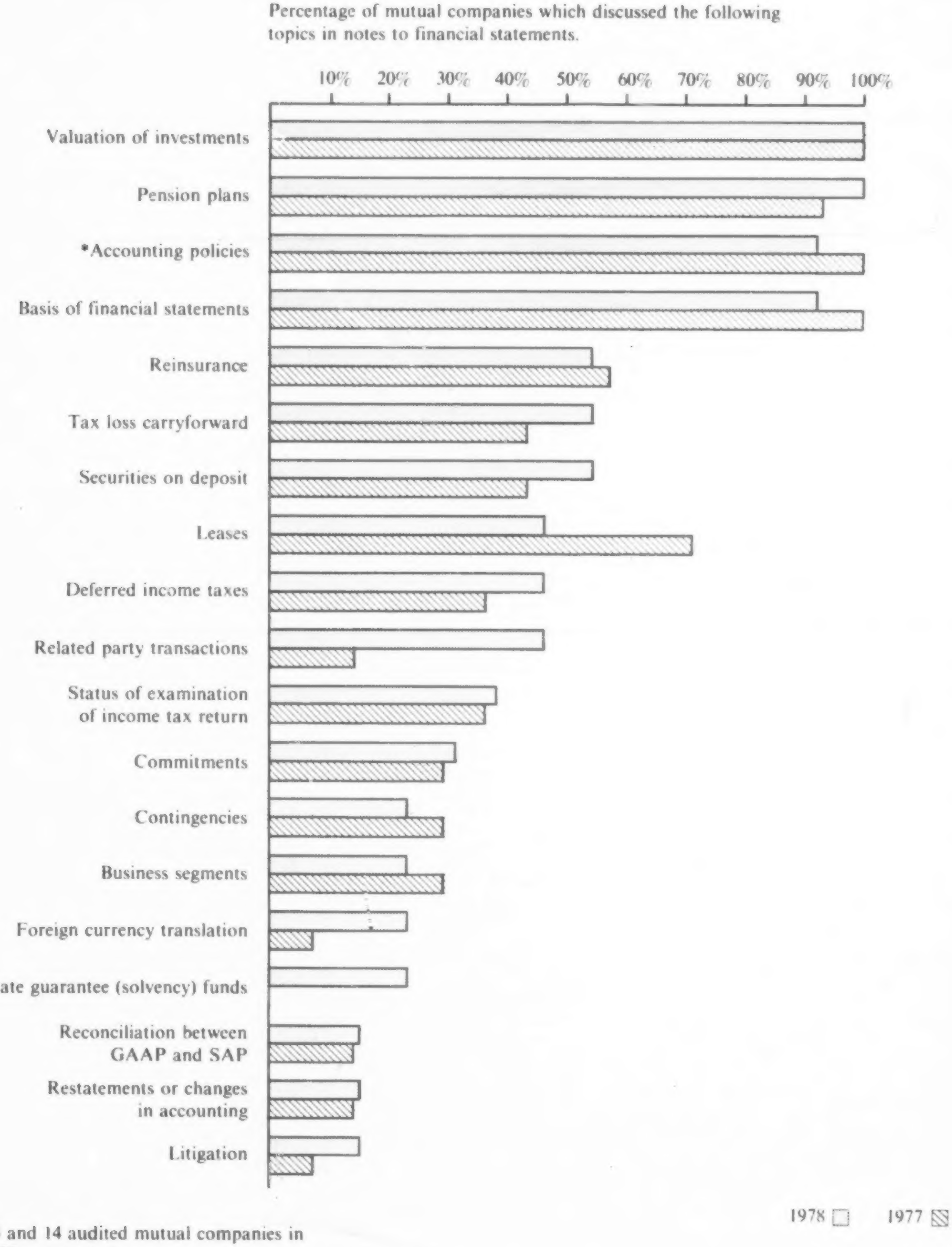
Percentage of stock companies which discussed the following topics in notes to financial statements.



Based on 95 and 96 stock companies in 1978 and 1977, respectively, whose reports contained footnotes to financial statements.

*Includes those companies presenting a separate summary of accounting policies.

Figure C-2. Topics Discussed in Notes to Financial Statements — Mutual Companies



Based on 13 and 14 audited mutual companies in 1978 and 1977, respectively.

*Includes those companies presenting a separate summary of accounting policies.

EXAMPLES Footnote disclosure of litigation

CSE CORPORATION

In the normal course of its business the property and liability subsidiary is obligated to provide legal defenses for its policyholders and to pay damages in behalf of its policyholders awarded in such legal actions. Reserves for such liabilities are shown on the books and records of the Insurance Company.

Two separate actions claiming general and punitive damages, have been commenced against the property and liability subsidiary by two former employees, each alleging breach of an oral employment contract. Each plaintiff claims that the company orally agreed to provide continued employment from his date of hire to age 65 as long as he complied with the lawful direction of the company and that he was terminated without good cause and without misconduct on his part. Each plaintiff claims $500,000 for loss of employment, $300,000 for loss of retirement benefits, and $1,000,000 in punitive and exemplary damages. The company intends to defend both lawsuits vigorously but cannot presently estimate the potential liability, if any.

There are three other suits pending. Management is of the opinion that liability, if any, resulting from these claims would not have a material effect on the company's financial statements.

EXCELSIOR INSURANCE COMPANY OF NEW YORK

The Company is a defendant in numerous civil actions arising out of the Beverly Hills Supper Club fire in Southgate, Kentucky on May 28, 1977. There are about 265 plaintiffs and about 900 defendants in the court actions. The actions were initially instituted in 1977 and the Company was thereafter added as a defendant.

The principal asserted bases of the claims against Insurance Services Office (ISO) and the Kentucky FAIR Plan are that rating examinations of the building were negligently conducted, the building owner was not notified of deficiencies, and the building was wrongfully approved for insurance. The Company and other affiliated companies of ISO and the Kentucky FAIR Plan are named as defendants by reason of their affiliations with ISO and the Kentucky FAIR Plan, their asserted liability to the plaintiffs being only derivative as a result of such affiliation. No separate act or omission on the part of the Company is alleged.

Based upon the Company's participation in ISO and the Kentucky FAIR Plan, the resulting liability, if any, will not materially affect the Company's financial position.

GOVERNMENT EMPLOYEES INSURANCE COMPANY

During 1978 the United States District Court for the District of Columbia approved settlement of four securities class action law suits against GEICO and certain other persons and entered a Final Judgment dismissing those law suits. The cost of the settlement, for which an accrual was made in 1977, was not material. As part of the settlement, GEICO's Warrants and Warrant Agreement were amended as reflected in Note G.

UNITED DIVERSIFIED CORPORATION

Effective January 1, 1972, the Company entered into an agreement with United Insurance Company of America (UICA) for settlement of a lawsuit which had been brought by UICA against the Company and eight individuals. The complaint filed by UICA sought the recision of an expense-sharing agreement between the two companies, the surrender of the industrial fire business to UICA, damages and other relief.

The January 1, 1972, settlement agreement provided generally that:

a. The two companies enter into a new expense sharing agreement for the remaining seven-year term of the disputed contract.

b. Beginning on January 1, 1979, the Company's industrial fire business was to be ceded to an affiliated insurance company of UICA at UICA's option.

On May 16, 1977, the Company entered into an agreement with an affiliated insurance company of UICA which provided for UICA to reinsure the Company's industrial fire insurance policies. The Company received a ceding commission of approximately $2,217,000 under the terms of this agreement. The profits or losses on the industrial fire policies after May 30, 1977, accrued to UICA.

PEERLESS INSURANCE COMPANY

The Company is a member of Insurance Services Office (ISO). ISO is a voluntary, non-profit, unincorporated association. Basically, ISO's principal function is the promulgation of rates for certain classifications of insurance in various states. Included in the ISO rate making process are inspection and survey services to develop rates. ISO and its member and subscriber companies, such as Peerless Insurance Company, together with contractors, architects, a state fire marshall and others are defendants in suits arising from a fire in which 165 persons died and a substantial number were injured. This fire is known as the Beverly Hills Supper Club fire. The Company is of the opinion that the expense and damages sought are not realistic. The Company acknowledges that all litigation is uncertain and cannot estimate, in the event liability shall be held to exist, what effect it would or could have on the Company. Therefore, no provision for any liability that may result has been made on the financial statements.

FIDELITY CORPORATION

The Company is a claimant in the Equity Funding Securities Litigation. In March 1977 the court approved a settlement which was subsequently funded into an escrow account by the defendants. Payment of the settlement to approved claimants is being delayed by an appeal of the settlement plan by certain other creditors. Management's estimate of the minimum recovery in 1977 from this lawsuit was $1,750,000, before estimated expenses and federal income taxes of $922,067, and was recorded as an extraordinary item in the 1977 Statement of Operations. The amount of the ultimate recovery may increase due to interest on the escrowed funds, final approval of other claims by the court or a successful appeal of the settlement plan mentioned above. An estimate of $100,000 was recorded as accrued interest income during 1978.

ST. PAUL COMPANIES, INC.

We, as well as some of our subsidiaries, have been named as defendants in various lawsuits. Plaintiffs in these lawsuits are asking for money damages or to have the court direct the activities of us and our subsidiaries in certain ways.

Among the lawsuits is a "class action" suit brought in 1975 by a group of physicians and patients on behalf of themselves and a larger number of individuals in their respective classes. This suit was brought in the U.S. District Court against our principal property-liability insurance subsidiary and three other unrelated major property-liability insurance companies. Plaintiffs in this suit claimed the defendants (including our property-liability insurance subsidiary) violated Federal antitrust laws and that they were also guilty of other misconduct involving the physicians' malpractice insurance business. Plaintiffs claim injuries of $100 million. Under the law, any money damages plaintiffs might recover, based on antitrust violation, would be tripled. At the defendants' request, the U.S. District Court dismissed the lawsuit. However, plaintiffs appealed, and the antitrust part of their claim has been returned to the U.S. District Court for trial. No trial date has been set.

We believe that even if some of the lawsuits are to go against us, the total amount that we and our subsidiaries might ultimately have to pay in all of these lawsuits will have no material effect on the overall financial position of us and our subsidiaries.

RELIANCE GROUP, INCORPORATED

Actions are pending against the Company, certain of its officers and directors, and the Company's independent accountants alleging violations of the Securities Exchange Act and demanding damages on behalf of all persons who purchased securities of the Company in reliance upon the Company's financial statements for the fiscal years ended September 30, 1968 and 1969 and certain information published by the Company concerning earnings, prospects and assets. In the opinion of general counsel, the ultimate liability of the Company, if any, will not be material.

The Company is involved in other litigation, some of which involve substantial claims. In the opinion of management, such litigation is either without merit or the ultimate liability, if any, will not have a material effect on the financial condition of the Company.

EXAMPLES Footnote disclosure of reinsurance

SENTRY INSURANCE A MUTUAL COMPANY

In 1974, SIAMCO entered into a reinsurance agreement with a subsidiary, Sentry Life Insurance Company (SLIC), whereby SIAMCO assumes 100% of the liability for a contract issued to an association for long-term disability coverages. The reinsurance agreement includes a provision for an experience return to the association.

The loss and loss expense reserves assumed for these long-term disability risks from SLIC represent discounted values of the ultimate liabilities. Commencing in 1975, SIAMCO reported these loss and loss expense liabilities in a consistent manner with its remaining property and casualty risks. SIAMCO has included the long-term disability loss and loss expense liabilities at their estimated ultimate values. The difference between the estimated ultimate values and the values discounted at 6% assumed from SLIC is accounted for as an asset to reflect an accrual of future investment income.

GOVERNMENT EMPLOYEES INSURANCE COMPANY

Pursuant to a program carried out under the supervision of the District of Columbia Superintendent of Insurance, effective June 30, 1976, GEICO executed reinsurance agreements with 27 property and casualty insurance companies obligating them to provide quota share reinsurance on 25.36% of GEICO's business. Quota share reinsurance is a form of reinsurance under which each company providing reinsurance assumes a predetermined share of the book of business being reinsured. The reinsurance agreements did not discharge GEICO from its primary legal liability on the covered policies but, under industry practice as permitted by existing regulations, GEICO accounted for the business covered by these agreements as if it were no longer liable.

By mutual agreement with the companies participating in the Quota Share Reinsurance Agreement, GEICO reduced its reinsurance by one fourth at the end of the second quarter of 1977 reducing the quota share to 19.02% of GEICO's business at the start of the third quarter of 1977. Also, pursuant to the reinsurance agreements, commissions were reduced from 15% to 12% on July 1, 1977.

The companies participating in the reinsurance treaty mutually agreed to amend the agreements to 36% of the original amount at the end of the first quarter of 1978 (9% of GEICO's business) and to terminate the remainder at midyear.

The direct effect of the reinsurance treaty on the GEICO operations for 1978 compared to 1977 is as follows:

	In Thousands	
	1978	1977
Net premiums ceded	$(35,912)	$(127,091)
Losses and loss expenses ceded	28,206	97,915
Reinsurance commissions earned	4,809	18,81[illegible]
Termination adjustments	3,917	(1,219)
Effect on GEICO's underwriting income	$ 1,020	$ (11,576)

The termination adjustments represent the amounts required to fix the reinsurers' combined loss and expense ratio at 98%, as provided in the agreement. Interest was earned at 3% per annum on funds held by the reinsurers after June 30, 1977, amounting to $1.5 million in 1978 and $1.5 million in 1977, and is included in investment income.

In addition to the quota share reinsurance GEICO and its insurance subsidiaries maintain certain reinsurance agreements for the purpose of insuring excess risks. GEICO and its insurance subsidiaries remain liable for any amounts to the extent that the reinsuring companies are unable to meet their obligations.

FOREMOST CORPORATION OF AMERICA

The Company's property and casualty insurance subsidiaries reinsure, on a quota share basis, physical damage coverage on mobile homes and travel trailers. Under reinsurance contracts for the year 1978, approximately 68% of the premium written during that year is ceded to reinsurers who reimburse the subsidiaries approximately 68% of the loss and adjustment expense. For premium written in 1977, the ceding rate was approximately 67%. The subsidiaries receive a commission based on the premium ceded and may receive a contingent commission based upon the loss experience of such ceded business. Contingent commissions amounted to $9,626,000 and $8,447,000 in 1978 and 1977.

Under the terms of the reinsurance agreements, the subsidiaries retain all premium, including amounts ceded, and pay the reinsurers the net amount due as premium is earned. Such net amount was limited to a percentage of earned premium ranging between three and four percent.

The subsidiaries also reinsured on a quota share basis their special risk general liability coverages. Under this reinsurance contract 79-1/2% of the written premium was ceded to the reinsurers who reimburse the subsidiaries 79-1/2% of the loss and adjustment expense. The subsidiaries received a ceding commission based on the premium ceded.

The subsidiaries also reinsure, on a quota share basis, certain other liability coverages. These quota share agreements provide for a ceding commission and also a contingent commission based on loss experience. These contingent commissions amounted to $1,976,000 and $3,343,000 in 1978 and 1977.

In addition, the subsidiaries have reinsured certain portions of their liability insurance coverages to limit the amount of losses on individual claims and have purchased catastrophe insurance to protect against aggregate single occurrence losses.

The Company's principal property and casualty insurance subsidiary had a reinsurance agreement expiring in 1979, which reimbursed credit insurance (LID) losses in excess of certain loss ratios. The losses recoverable under the agreement were limited to $5,000,000 through 1975 and a maximum of an additional $500,000 per year after 1975 through 1979 depending on the loss experience. The cost of such coverage was based on the loss experience over the term of the agreement. There were no recoveries of credit losses in 1978 or 1977 compared to the $2,000,000 in 1975 and the $3,000,000 in 1974. The LID stop loss agreement was cancelled at December 31, 1978. The cost of this agreement amounted to $2,070,000 in 1978 and $1,044,000 in 1977. The 1978 cost included $1,073,000 of additional expense in 1978 to cancel the agreement.

The cost of reinsurance is included in prepaid policy acquisition costs and is amortized as the premium is earned. Unearned premium is stated after reductions of approximately $100,997,000 and $90,102,000 at December 31, 1978 and 1977 for premiums ceded.

A contingent liability exists to the extent that losses recoverable under excess liability, ocean marine and other reinsurance contracts are not paid to the Company by reinsurers.

UNITED DIVERSIFIED CORPORATION

Under an agreement effective January 1, 1978, Cadillac Mutual Insurance Company assumed all present and future liabilities of the Company related to all automobile policies previously written by the Company. No profit or loss was incurred by the Company as a result of this cession other than retention of $40,000 in investment income through April 28, 1978 relating to the automobile business.

Revenues, net of direct costs, for the Castle-Academy, industrial fire, and automobile business for the years ended December 31, 1978 and 1977, are summarized below:

	1978			
	Automobile	Industrial Fire	Castle-Academy	Combined
Premium earned	$ 7,851	$ -	$ -	$ 7,851
Losses incurred	$ (2,789)	$ 2,317	$ -	$ (472)
Decrease in future policy benefits	-	-	-	-
Acquisition expense	-	-	-	-
Commissions, general expenses and taxes	856	13,507	16,613	30,976
Total	$ 9,784	$ (15,824)	$(16,613)	$ (22,653)

	1977			
	Automobile	Industrial Fire	Castle-Academy	Combined
Premium earned	$3,672,836	$6,522,754	$760,254	$10,955,844
Losses	$1,647,791	$2,182,364	$497,287	$ 4,327,442
Increase in future policy benefits	-	-	(257,150)	(257,150)
Acquisition expense	-	2,320,215	194,901	2,515,116
Commissions, general expenses and taxes	1,812,446	1,402,157	118,271	3,332,874
Total	$ 212,599	$ 618,018	$206,945	$ 1,037,562

EXAMPLES Footnote disclosure of related party transactions

MOTOR CLUB OF AMERICA

(a) Management Agreement: MCA is party to a management agreement with its subsidiaries under which MCA agrees to perform various administrative and operating services, pay operating expenses, and collect fees due to MCAIC and its subsidiaries from agents, insureds and others. In return for such services, the subsidiaries pay MCA management fees at varying rates up to 18-1/2% of revenues. Garden State also pays MCA a contingent commission on the profits from accident and health business of the prior year. In December, 1978, Garden State purchased data processing equipment which will be used by MCA and affiliated companies. The management fee charged to Garden State will be adjusted to compensate Garden State for the use of this equipment.

(b) Taxation Arrangement: MCA and its subsidiaries, including MCAIC and its subsidiaries other than its life insurance subsidiary, file consolidated Federal income tax returns. Federal income tax credits and expenses have been allocated between the companies on a basis determined as if the companies had filed separate returns; settlement between the companies will be made on such basis. All participants in a consolidated return are severally liable for the full amount of the tax, including interest and penalties, if any, which may be assessed against the group.

(c) Sale of Life Insurance Policies: MCA and its motor club subsidiary provide most Motor Club members with a Personal Accident Policy ("PAP") as part of the Motor Club membership. Such policies are provided through a Group Personal Accident Policy written by Garden State. During 1978 and 1977 the net PAP premium received by Garden State was approximately $319,000 and $308,000 respectively.

(d) Lease Agreement: Land and an office building owned by MCAIC is leased to Motor Club of America, at annual rentals of $210,000 to November 30, 1987.

(e) Pension Plan: The MCA pension plan is being funded through Garden State.

(f) Sale of Securities: During 1977, MCA sold municipal bonds to MCAIC having an amortized cost of approximately $4,299,000 and a market value of approximately $4,172,000. The bonds were sold at book value and no gain or loss was recognized on the transaction.

(g) Sale of Preferred Stock in MCAIC: During 1977, MCA and its noninsurance subsidiaries purchased 6,250 shares of MCAIC preferred stock for $6,250,000 (issue price: $1,000 per share). Dividends paid to MCA and its noninsurance subsidiaries amounted to $447,765 (1978) and $90,248 (1977) were eliminated in consolidation. In March, 1979, MCA (parent) and a noninsurance subsidiary purchased 2,500 shares of MCAIC preferred stock for $2,500,000 (issue price: $1,000 per share).

(h) Sale of Investment in an Unconsolidated Affiliate: During 1978, Garden State sold 250,000 shares of the capital stock of Moderncare Center of America, Inc., an unconsolidated affiliate, to MCA for $30,794, the underlying book equity.

AVEMCO CORPORATION

The Company had the following transactions in 1978 and 1977 with organizations whose directors, stockholders, or officers were directors or officers of the Company.

(a) Loans aggregating $209,000 and $200,000 at December 31, 1978 and 1977, respectively, including interest were outstanding to World Water Resources, Inc. ("WWR"), a Company which manufactures and sells water purification devices. WWR also owes the Company $91,000 on open account as of December 31, 1978. Management is of the opinion that the future of this venture continues uncertain at the present time, and accordingly, the full amount of the receivable at December 31, 1978, has been provided for in the allowance for estimated loan losses and the allowance for doubtful accounts.

(b) At December 31, 1978 loans totaling $560,000 ($1,500,000 in 1977) were due to and $120,000 ($103,000 in 1977) in interest were paid to a bank of which an officer is a director of the company, and; (c) Legal fees of $48,000 and $56,000 were paid in 1978 and 1977, respectively to a law firm in which the Corporate Secretary is a partner.

BELLEFONTE INSURANCE COMPANY

BFC has guaranteed all the notes payable of AFC, which amounted to $28,500,000 at December 31, 1978.

During 1978, Armco provided certain services including maintenance and operations of the Bellefonte home office at a cost of $432,000. Armco rented a portion of the home office space and all the real estate held for investment purposes for which BFC was compensated $1,137,000 during both 1978 and 1977.

In December 1978, Bellefonte sold, at market value, its home office building and its investment in real estate to Armco Management Corporation (a subsidiary of AFC). This transaction is reflected as a capital contribution of $8,536,000 in the accompanying financial statements.

Various expenses such as employee benefits and data processing are paid by Armco and allocated to Bellefonte based on estimates of the costs of services involved.

BFC insurance subsidiaries insure certain of Armco's risks for which normal premiums are charged.

In connection with certain reinsurance agreements, Armco has guaranteed liabilities up to $45,500,000 at December 31, 1978.

ROCKWOOD INSURANCE COMPANY

Somerset Investment, Inc., a Pennsylvania corporation engaged in the business of leasing various equipment, is a wholly owned subsidiary of Rockwood Agency, Inc., which is a wholly owned subsidiary of Key Company. Key Company is controlled and managed by officers and employees of Rockwood Insurance Company. Somerset Investment, Inc. has entered into several transactions with Rockwood Insurance Company including:

A) The leasing of various equipment which leases totaled approximately $12,200 per month in 1978 and $10,500 per month in 1977.

B) Somerset is a 50% partner in an entity, Rose Tree Joint Venture. Rose Tree acquired from Rockwood a real estate development which Rockwood had acquired through foreclosure proceedings in connection with its surety business. An original mortgage of $436,482 was granted at 8-1/2% and Rockwood agreed to provide additional funds for completion of the project. Rockwood has also agreed to provide mortgages to the individual purchasers of the condominium units as they are sold. Rockwood advanced an additional net amount of $334,448 during 1978 and has received $401,000 for releases on units sold. The present balance of the construction mortgage is $369,930. The present balance of mortgages granted to the individual purchasers is $400,410.

Rockwood Insurance Company has an 18-3/4% participation with Keystone Bank and others in a mortgage on real property located at 3520 Fifth Avenue, Pittsburgh, PA. The mortgage was originally a participation with Commercial Bank & Trust, prior to its merger with Keystone Bank. The present balance of the company's participation is $127,288. Interest is at 7-1/2%. Interest and principal are due monthly. The real property is owned by Keystone Bank Building, Inc. David N. Oppenheim, Executive Vice-President of Rockwood Insurance Company, is President and significant stockholder of Keystone Bank Building, Inc. Subsequent to the sale of its Pittsburgh Office building, the company entered into a five year lease with Keystone Bank Building, Inc. for the rental of office space for its Pittsburgh Office at a monthly rent of $1,467.

Pittsburgh Mutual Insurance Company has as its officers certain officers and employees of Rockwood Insurance Company. Pittsburgh Mutual Insurance receives premiums through Rockwood Insurance Company. These premiums totaled $30,879 and $28,710 in 1978 and 1977 respectively.

The company has a 48% interest in Keystone Bank, as described in Note 8. The company had on deposit with Keystone Bank $4,178,893 and $1,560,812 of demand and time deposits at December 31, 1978 and 1977 respectively. Substantially all of the company's deposits and disbursements are handled through Keystone Bank.

David N. Oppenheim, an officer and director, has an agency relationship with the company in Pittsburgh, Pennsylvania. Mr. Oppenheim also sells the company some of its general insurance as an agent for other insurance companies. Gross insurance premiums paid to Mr. Oppenheim for the company's general insurance were $29,665.

R.D. Bushnell, an unsalaried officer and director, acts as a general agent for the company in the state of Louisiana.

ZENITH NATIONAL INSURANCE CORP.

Charges for legal services provided by Wyman, Bautzer, Rothman & Kuchel amounted to $40,000 in 1977. Stanley R. Zax, Chairman of the Board and President, was, until December 31, 1977, a member of the firm. Charges for legal services provided by Irmas, Smike, Chodos & Marshall, Inc. amounted to $19,000 in 1977. A senior member of the firm, Sydney M. Irmas, is a former director of Zenith. Charges for legal services provided by Mitchell, Silberberg & Knupp amounted to $45,000 in 1977. A senior member of the firm, Chester I. Lappen, is the former Chairman of the Board of Zenith.

MISSION INSURANCE GROUP, INC.

Charges for legal services provided by Smith, Gill, Fisher & Butts Incorporated, amounted to $101,000 in 1978 and $165,000 in 1977. The senior member of the firm, Edward A. Smith, is Chairman of the Board and a Director of the Company. Gross amounts paid to Brown Brothers, Harriman & Co., as the Company's investment advisor and for security transactions were $232,000 in 1978 and $190,000 in 1977. Maarten van Hengel, a partner of that firm, is a Director of the Company.

EXAMPLES Footnote disclosure of proposed federal income tax deficiencies

FIDELITY CORPORATION

As previously reported the Internal Revenue Service had proposed additional taxes of approximately $300,000 for a subsidiary's year ended December 31, 1967. This deficiency has been settled for approximately $50,000, including interest.

In connection with the 1971 sale of a subsidiary, the Company retained the liability for any federal income tax deficiency through the date of sale. The Internal Revenue Service has proposed deficiencies and interest of approximately $1,800,000 for the years 1958 through 1970. To secure this potential obligation, the Company has guaranteed a $1,700,000 letter of credit issued to the purchaser and has pledged $844,000 of certificates of deposit to the Internal Revenue Service. The Company has sought a refund of the 1964 deficiencies plus interest by litigation in the United States Court of Claims. The central issue which underlies substantially all of the alleged deficiencies is whether or not the former subsidiary qualified to be taxed as a life insurance company. The Company's position has now been sustained by the Court of Claims for the year 1964. Management anticipates that the Internal Revenue Service will now re-evaluate its position regarding the former subsidiary's life insurance status based on the Court of Claims decision. While the Company's position has been considerably strengthened by the Court of Claims decision, the final outcome is not entirely free from doubt; however, it is management's opinion, that the resulting liability, if any, would not have a material impact on the financial statements as presented.

WESTERN INSURANCE COMPANIES

Following the Tax Court decision, an agent of the Internal Revenue Service (Service) re-examined the Federal income tax returns of the Company for the three years ended December 31, 1972 (which are pending before the Appellate Division of the Service) and examined the returns for the three years ended December 31, 1975. As a result of such examinations, additional Federal income taxes of $33,842 have been proposed by the Service for the six years ended December 31, 1975. In determining this deficiency, the Service has followed the court decisions with respect to the deduction for commissions on deferred premium installments and has proposed for the year ended December 31, 1972 only the disallowance of a portion of the Company's contribution to the Employees' Profit Sharing Trust.

HANOVER INSURANCE COMPANIES

Hanover and its subsidiaries file a consolidated Federal income tax return. The returns have been examined through 1975. As a result of a 1977 United States Tax Court decision an amended deficiency was issued in the amount of $331,644 plus interest on the Massachusetts Bonding and Insurance Company (acquired and merged into Hanover on July 1, 1961) for the years 1959 and 1960. Inasmuch as the Company has appealed the findings and is presently awaiting a hearing, the outcome is uncertain. Returns for the years 1961 through 1969 have been examined and no additional taxes were assessed. Returns for the years 1970 through 1975 have been examined. On March 1, 1976, the IRS issued a statutory notice of deficiency of $3,467,844 for 1971 and $2,640,666 for 1972. The issues raised by the IRS are primarily industry issues involving timing differences which, if upheld, will reverse as tax benefits in future years. The Company does not agree with the findings of the IRS and believes it has adequate provision for or defense against the proposed assessments.

INDIANA GROUP, INC.

The Federal income tax returns of the Company and its non-life insurance subsidiaries for the years 1970-1975 have been examined by the Internal Revenue Service and tax deficiencies have been proposed. The proposed deficiencies relate primarily to certain issues common to the property/casualty insurance industry and are being protested by the Company. Management and its tax counsel are of the opinion that the position of the Internal Revenue Service as it relates to the disputed issues is not based upon a proper interpretation of the facts and that the methods of determining taxable income underlying the proposed deficiencies are contrary to accepted industry practices and existing IRS rulings during the years involved. Accordingly, no provision for the proposed tax deficiencies has been included in the accompanying financial statements. Should the Service's proposals be sustained on the disputed issues, the resulting deficiencies would be substantially eliminated by offsetting allowances in subsequent years for such timing differences between pre-tax financial accounting and taxable income.

KEMPER CORPORATION

The tax returns for the years 1971 and 1972 have been examined by the Internal Revenue Service. The IRS has proposed adjustments to the tax liability for those years which the company intends to vigorously contest. It is believed that the effect of any additional tax liability will not be material. The tax returns for the years 1973 through 1975 are currently under examination by the IRS.

EXAMPLES Footnote disclosure of mergers and acquisitions

AMERICAN INTERNATIONAL GROUP, INC.

The accompanying financial statements are presented in accordance with generally accepted accounting principles. The accounts for 1977 have been restated to retroactively reflect the merger of American International Reinsurance Company, INC. (AIRCO) with and into AIG based on an exchange ratio of 1.10 shares of AIG Common Stock for each outstanding share of AIRCO Common Stock. The merger, which became effective September 20, 1978, was accounted for as a combination of companies under common control which is similar to pooling of interest accounting. Certain accounts have been reclassified in the 1977 financial statements to conform with the 1978 presentation. All information herein has been retroactively adjusted for AIG's own 25% stock split-up effected in the form of a dividend in April 1977 and AIRCO's 25% stock distribution in June 1977.

The restatements of revenue, net income (including realized gains and losses) and capital funds are summarized below:

Year Ended December 31, 1977	
Revenue, as previously published	$1,350,874
*Revenue resulting from the merger with AIRCO	264,307
Revenue, as restated	$1,615,181
Net income (including realized gains and losses), as previously published	$ 123,097
*Net income resulting from the merger with AIRCO	30,730
Net income (including realized gains and losses), as restated	$ 153,827
	December 31, 1977
Capital funds, as previously published	$ 611,893
*Increase in equity resulting from the merger with AIRCO (excluding treasury shares)	168,651
Decrease resulting from the acquisition of treasury shares	(50,642)
Capital funds, restated	$ 729,902

*Represents the revenue, net income (including realized gains and losses) and equity of AIRCO and AIRCO subsidiaries exclusive of AIG.

BERKSHIRE HATHAWAY INC.
(Dollars in thousands)

Note 1 to the consolidated financial statements of Berkshire Hathaway Inc. statements discloses the merger of Berkshire Hathaway Inc. ("Berkshire") and Diversified Retailing Company, Inc. ("Diversified") effected December 30, 1978 and the resulting combination of the accounts of Berkshire and Diversified in the presentation of the accompanying consolidated financial statements. Financial statements of the Berkshire Hathaway Inc. Insurance Group presented herewith combine the accounts of subsidiaries of Berkshire and companies which were formerly subsidiaries of Diversified engaged in fire and casualty insurance underwriting. This combination results in a restatement of the prior year financial statements. Certain significant results from the combination follow:

Capital stock and surplus of the Insurance Group as previously reported as of December 31, 1976		$ 88,462
Add--capital stock and surplus of insurance subsidiaries of Diversified at December 31, 1976		10,694
		99,156
Deduct--equity in undistributed earnings of Berkshire accumulated by insurance subsidiaries of Diversified at December 31, 1976, net of deferred income taxes relating thereto		(2,872)
Capital stock and surplus, December 31, 1976--restated		96,284
Net earnings of the Insurance Group for 1977 as previously reported	$23,407	
Add--net earnings of insurance subsidiaries of Diversified for 1977	2,489	
	25,896	
Deduct--equity in net earnings of Berkshire Hathaway Inc. reported by insurance subsidiaries of Diversified for 1977	(1,282)	
Net earnings for 1977--restated		24,614
Dividends paid to stockholders during 1977		(2,400)
Capital stock and surplus, December 31, 1977--restated		118,498
Net earnings for 1978:		
Subsidiaries of Berkshire	29,052	
Subsidiaries of Diversified	1,076	
Net earnings for 1978		30,128
Dividends paid to stockholders during 1978		(5,475)
Capital stock and surplus, December 31, 1978		$143,151

The elements of capital stock and surplus of insurance subsidiaries of Diversified which have been added to the capital stock and surplus of the Berkshire Insurance Group in the accompanying balance sheets is as follows:

	Dec. 31, 1978	Dec. 31, 1977
Capital stock	$ 2,000	$ 2,000
Additional paid-in capital	3,855	3,855
Unassigned surplus	3,853	2,773
	$ 9,708	$ 8,628

Certain components of net earnings, derived from combining the accounts of insurance subsidiaries of Berkshire and insurance subsidiaries of Diversified for the past two years, are as follows:

	1978	1977
Premiums earned:		
Insurance subsidiaries of Berkshire	$180,329	$136,890
Insurance subsidiaries of Diversified	5,744	6,198
	$186,073	$143,088
Underwriting gain (loss):		
Insurance subsidiaries of Berkshire	3,287	5,884
Insurance subsidiaries of Diversified	(286)	(83)
	$ 3,001	$ 5,801
Net earnings:		
Insurance subsidiaries of Berkshire	29,052	23,407
Insurance subsidiaries of Diversified	1,076	1,207
	$ 30,128	$ 24,614

CHUBB CORPORATION

During 1978, Chubb transferred its 100% ownership of Bellemead to a property and casualty subsidiary. Accordingly, the combined property and casualty insurance company financial statements for 1977 have been restated to include Bellemead accounted for on the equity method. This change had no effect on the consolidated financial statements.

During 1978, Chubb Life Insurance Company (Chubb Life) was incorporated, and all shares of The Colonial Life Insurance Company of America (Colonial) and United Life and Accident Insurance Company (United) previously owned by Chubb and two property and casualty insurance subsidiaries were transferred to and exchanged for shares in Chubb Life. Accordingly, the 1977 financial statements of Chubb Life reflect the retroactive consolidation of Colonial and United accounted for as a pooling of interests. In the combined financial statements of the property and casualty insurance companies, the investment in Chubb Life is accounted for on the equity method.

MCM CORPORATION

On February 2, 1977, OF&C acquired, for $115,000 all of the outstanding capital stock of Wilshire Insurance Company. The acquisition was accounted for by the purchase method and, accordingly, the operations of Wilshire were included in the 1977 financial statements from date of acquisition. The acquired net assets exceeded cost by approximately $2,641,000. This excess is being amortized using the straight-line method over a sixty month period, which corresponds with the estimated settlement period of the acquired business.

The purchase agreement also provides for an additional purchase price to be paid on March 31, 1982, if the development of the loss and loss adjustment expense reserves is favorable. If the loss and loss adjustment expense reserves as of December 31, 1976 actually develop to be an amount less than these reserve amounts plus $1,050,000, then an additional purchase price equal to 25 percent of the first $1,000,000 of favorable development and 10 percent thereafter will be payable on March 31, 1982.

Effective July 31, 1978, Allied Underwriters acquired for $792,000 all of the outstanding capital stock of Blackburn, Nickels & Smith (BNS), a managing general insurance agency. The cost of BNS exceeded the value of the net acquired assets by approximately $614,000. This excess is being amortized over 36 months in relation to the level of business retained on the sum-of-the-digits method and based on management's anticipation of the risk of non-renewal of business placed by BNS with OF&C.

This acquisition has been accounted for by the purchase method and, accordingly, operations of BNS have been reflected in the financial statements from date of acquisition. The following is a comparison on a pro forma basis of the unaudited consolidated results of operations for 1978 and 1977 as if the acquisition had been consummated January 1, 1977:

	Year Ended December 31	
	1978	1977
	(Thousands of dollars, except per share data)	
Revenue	$68,256	$54,234
Net income	5,598	3,112
Net income per share	2.24	1.25

OLD REPUBLIC INTERNATIONAL CORPORATION

In March, 1977, the Corporation acquired 79.2% of the outstanding shares of Insured Credit Services, Inc. (ICS) in exchange for 265,753 (net) shares of International common stock. This acquisition brought the Corporation's equity in ICS to 100%. Pro-forma information based on the assumption of 100% ICS ownership as of January 1, 1977 would not significantly affect the accompanying consolidated financial statements of the Corporation.

During 1978 the Corporation and its subsidiaries acquired two small insurance companies and a service company for an aggregate purchase price of $614, consisting of $12 in stock (6,000 shares), $235 in cash, and $367 in notes payable. The operating results of these companies were immaterial prior and subsequent to their acquisition.

In August, 1978, International acquired 100% of Minnesota Title Financial Corporation (MTFC) at a cost of $35.05 million of which $13.6 million was represented by cash outlays and the remainder by the issuance of 932,676 shares of Old Republic common stock valued at $21.3 million. For financial accounting purposes this transaction has been accounted for as a purchase and, accordingly, the operating results of MTFC have been included in the consolidated financial statements of the Corporation since August, 1978. The excess of the purchase price over the fair value of net assets acquired will be amortized on a straight line basis over 40 years.

Assets, liabilities, and cash obtained at date of acquisition of Minnesota Title Financial Corporation and other companies during 1978 were as follows:

ASSETS	
Cash	$ 4,717
Bonds and notes	3,546
Stocks	5,759
Other loans and investments	9,468
Investment income due and accrued	88
Accounts and premiums receivable	4,145
Reinsurance balances and funds	466
Real estate, furniture and equipment	3,835
Title plants and records	14,670
Investment in unconsolidated subsidiaries	36
Excess of cost over book value of subsidiaries	7,920
Sundry assets	1,041
Total Assets	55,696
LIABILITIES	
Claim reserves	11,428
Commissions, expenses, fees and taxes	3,708
Debt	529
Accounts payable	1,028
Sundry liabilities	3,950
Total Liabilities	20,646
Net assets acquired	35,050
Stock issued for acquisition of MTFC (non-cash outlay)	21,376
Gross cash outlay for acquisition of MTFC	13,673
Less MTFC cash (above)	4,717
Net cash outlay for acquisition of MTFC	8,955
Net cash outlay for acquisition of other companies	193*
	$ 9,148

*Assets and goodwill acquired of $1,359 less liabilities of $978 and cash on hand of $187 are not shown in detail since they were not material in relation to total acquired amounts.

The following summary presents the consolidated results of the Corporation on a pro-forma basis as if MTFC had been acquired as of January 1, 1977 and 1978.

	Year Ended December 31,	
	1978	1977
Net Revenues	$ 264,293	$ 306,583
Net Operating Income	28,559	23,829
Net Income	$ 29,175	$ 24,201
Per Share:		
Net operating income	$ 5.59	$ 4.73
Net income	$ 5.71	$ 4.81
Pro-forma average number of shares outstanding	5,108,711	5,035,420

Between October 1978 and January 1979, the Corporation, through MTFC, acquired approximately 99% of Mississippi Valley Title Insurance Company (MVT) for a total price of approximately $4.6 million represented by cash of $2.8 million and notes payable of $1.8 million. As of December 31, 1978 the financial statements of MVT reflected assets of $5.9 million and shareholders' equity of $3.1 million; for the year then ended, net revenues were $5.4 million and net income amounted to $.4 million. This acquisition will be treated as a purchase in 1979 for financial accounting purposes and has been reflected on the equity basis of accounting in 1978. Pro-forma data prepared on the assumption that MVT had been acquired as of January 1, 1978 or 1977 would not have a significant effect on the Corporation's consolidated results for 1978 or 1977.

PIEDMONT MANAGEMENT COMPANY, INC.

In 1978, the Company announced its intent to sell its life insurance and life insurance/retail securities marketing subsidiary companies. In December 1978, the Company also sold its real estate investment subsidiary. In accordance with the provisions of Accounting Principles Board Opinion No. 30, the operations of these subsidiaries have been accorded treatment as, "discontinued operations" in the Company's consolidated financial statements.

In conjunction with the Company's decision to discontinue segments of its operations, certain amounts attributable to such discontinued business segments in prior years, as previously reported, have been reclassified in the accompanying financial statements to be reflected in a manner consistent with the current year's presentation.

A summary of the components of the assets and liabilities attributable to the Company's discontinued operations follows:

	1978	1977
Assets:		
Pacific Fidelity Life Insurance Company	$60,694,732	$57,821,731
Life insurance/retail securities marketing operations	250,000	1,420,321
Piedmont Properties, Inc. (real estate investments)	-	507,235
	60,944,732	59,749,287
Consolidating and eliminating adjustments	52,017	(89,080)
Assets as shown in the consolidated balance sheets	$60,996,749	$59,660,207
Liabilities:		
Pacific Fidelity Life Insurance Company	$43,484,427	$39,260,559
Life insurance/retail securities marketing operations	-	174,434
Piedmont Properties, Inc. (real estate investments)	-	537
	43,484,427	39,435,530
Consolidating and eliminating adjustments	(120,449)	27,584
Liabilities as shown in the consolidated balance sheets	$43,363,978	$39,463,114

A summary of the revenues attributable to discontinued operations for the years ended December 31, 1978 and 1977 follows:

	1978	1977
Pacific Fidelity Life Insurance Company	$14,229,530	$16,415,516
Life insurance/retail securities marketing operations	3,077,943	3,506,991
Piedmont Properties, Inc. (real estate investments)	39,940	27,174
	$17,347,413	$19,949,681

A summary of the components of the Company's operation results attributable to its discontinued operations for the years ended December 31, 1978 and 1977 follows:

	1978	1977
Pacific Fidelity Life Insurance Company:		
Loss from operations	$ 518,094	$ 1,253,405
Provision for loss on sale	4,712,945	-
	5,231,039	1,253,405
Life insurance/retail securities marketing operations:		
Loss from operations	419,280	451,114
Provision for loss on sale	1,106,657	-
	1,525,937	451,114
Piedmont Properties, Inc.:		
Loss (income) from operations	29,726	15,305
Gain on sale	(109,997)	-
	(80,271)	15,305
Loss from discontinued operations	6,676,705	1,719,824
Federal income tax benefit	3,447,592	481,590
Net loss from discontinued operations	$3,229,113	$ 1,238,234

EXAMPLES Other footnote disclosures

ALLCITY INSURANCE COMPANY

Allcity has $8,950,000 of New York City securities at December 31, 1978 included in the "Municipal and governmental agencies" caption. These securities are carried at amortized cost since it is the intention of management to hold these securities to maturity. Maturities of such New York City securities within three years after December 31, 1978 are $4,540,000 measured in terms of carrying amount.

ST. PAUL COMPANIES, INC.

Our Consolidated Statement of Income does not include either gains or losses from the sale of investments (realized gains or losses) or gains or losses we believe we might have realized if we sold investments we still held (unrealized appreciation or depreciation). We report these figures in a separate Consolidated Statement of Investment Gains and Losses. We take this approach because we believe it is the preferable method of presenting this type of financial data.

However, when we file our annual report to the Securities and Exchange Commission (SEC) using Form 10-K, we are required to include realized gains or losses in our statement of income. As a result, our report to the SEC differs from the consolidated statement of income in this report as follows:

	For year ended December 31,	
	1978	1977
Net income, excluding investment gains and losses (as reported in the accompanying financial statements)	$162,954,155	$134,268,851
Net realized gains less tax effect of $4,955,000 ($3,990,000 in 1977)	11,550,564	9,298,750
	174,504,719	143,567,601
Extraordinary credit--elimination of income taxes on utilization of capital loss carryforwards	4,955,000	3,990,000
Net income, including realized investment gains and losses (as reported in Form 10-K filed with the SEC)	$179,459,719	$147,557,601
Per share:		
Net income, excluding investment gains and losses	$ 7.77	$ 6.40
Net realized gains less tax effect	.55	.45
Extraordinary credit	.24	.19
Net income, including realized investment gains and losses	$ 8.56	$ 7.04

SENTRY INSURANCE A MUTUAL COMPANY

Condensed financial data of the consolidated foreign subsidiaries are as follows:

	1978	1977
Investments	$116,800,954	$ 75,508,042
Assets held in separate accounts	45,126,398	46,282,463
Other assets	63,206,034	59,572,056
Total assets	225,133,386	181,362,561
Insurance reserves	114,957,916	87,172,187
Liabilities related to separate accounts	45,126,398	46,282,463
Other liabilities	34,668,850	27,807,896
Total liabilities	194,753,164	161,262,546
Net assets	$ 30,380,222	$ 20,100,015
Revenues	$ 63,809,674	$ 67,550,515
Net income (loss), excluding realized investment gains and losses	$ 877,770	$ (2,404,962)

Foreign currency assets and liabilities are translated at year-end rates of exchange except for fixed assets, permanent investments, goodwill and other intangible assets which are translated at historic United States dollar rates. Income and expense accounts are translated at average rates of exchange in effect for the respective years. The effects of foreign currency fluctuations were net gains of $968,864 in 1978, and $1,148,785 in 1977.

Other intangible assets were previously translated at year-end rates of exchange and the change in policy to historic rates resulted in a translation gain of $695,000 in 1977.

TEXAS EMPLOYERS' INSURANCE ASSOCIATION

For Federal income tax purposes, mutual insurance companies are required to establish and maintain a protection against loss account (PAL account). Additions to the PAL account are deducted from taxable income and subtractions from the account result in an increase in taxable income. Subtractions from the PAL account are made when any of the several statutory limitations are reached. For the years ended December 31, 1978 and 1977, the Association added approximately $3,225,150 and $3,873,019, respectively, to the PAL account and deducted like amounts from taxable income. Because of the statutory limitations on the PAL account balance, all or a portion of the current year's addition may be included in taxable income in the future. The aggregate of untaxed earnings in the PAL account is approximately $7,927,000 at December 31, 1978, for which the Association has provided deferred taxes of $2,602,000.

PHILADELPHIA CONTRIBUTIONSHIP FOR THE INSURANCE OF HOUSES FROM LOSS BY FIRE

Dividends to perpetual policyholders are determined annually by the Board of Directors and are payable to eligible policyholders of record as of September 30. In 1977 and prior years, the Company accrued dividends for the three-month period ended December 31. In 1978, the Insurance Department of the Commonwealth of Pennsylvania advised the Company to discontinue such accruals. As a result, the provision for dividends to perpetual policyholders in 1978 is approximately $207,000 less than it would have been under the Company's prior accounting practice.

RELIANCE GROUP, INCORPORATED

Extraordinary income in 1978 resulted from early extinguishment of debt under a debenture exchange offer and a redemption, while extraordinary income in 1977 and 1976 resulted from the utilization of tax loss carryovers. At December 31, 1977, substantially all such carryovers had been utilized.

PIEDMONT MANAGEMENT COMPANY

Substantially all of the Company's assets are denominated in U.S. dollars except for approximately $1,750,000 pertaining to the foreign operations of the Reinsurance Corporation of New York. These foreign operations produced revenues of approximately $11,000,000 and sustained an operating loss of approximately $100,000 during 1978.

Assets and liabilities denominated in foreign currencies, including unearned premiums and outstanding loss reserves, are translated at the rate of exchange in effect at the close of the period. Foreign exchange gain or loss adjustments are charged to operations. Revenue and expense accounts are translated for each quarter at the rate in effect at the end of the period. Net foreign exchange gains (losses) were $450,927 and ($185,840) in 1978 and 1977, respectively.

EMPLOYERS INSURANCE OF WAUSAU

Statutory accounting principles require that certain loss and loss expense reserves be maintained at levels which yield loss ratios between 60% and 75% of earned premiums. As of December 31, 1978 and 1977, the Company's reserves were less than the statutory minimums and consequently an excess statutory reserve was required. Management believes their estimates of loss and loss expense reserves are adequate and that the excess statutory reserve is unnecessary and accordingly have not included it in liabilities on the accompanying consolidated balance sheets. A reconciliation from this report to the statutory annual statements filed with the various states is as follows:

	December 31, 1978	December 31, 1977
Policyholders' security funds	$317,942,549	234,558,492
Excess of statutory reserves over statement reserves	45,402,422	1,368
Statutory policyholders' security funds	$272,540,127	234,557,124

20TH CENTURY INDUSTRIES

The Company's net income in the fourth quarter of 1978 was $343,769, compared to net income of $3,983,674 reported for the nine months ended September 30, 1978. The Company made certain accounting adjustments in the fourth quarter by using more current estimates of loss reserves, loss expense reserves and reinsurance premiums accrued, resulting in an aggregate reduction of net income in the quarter. It is not practicable to determine the amount of such adjustments nor to allocate the adjustments on a quarterly basis.

ST. PAUL COMPANIES, INC.

As mentioned, we carry bonds at their amortized cost. The Amortized cost figure is based on purchase price and does not reflect current market value, which is what we might get if we had sold the investments at year end. However, if we feel that a bond is "troubled," that is that we may have trouble redeeming it, we will estimate how much we might realize and reduce the value of the bond on our books to its estimated realizable value.

We make a year end estimate of the fair value of our bonds so you can see how their current value differs from the value we carry on our books. At the end of 1978 our estimated value was $1,886,345,972. This figure is found in parenthesis on the balance sheet.

If a bond is actively traded, we estimate its fair market value based upon published year end market quotes. If a bond is not actively traded (the bulk of our state and local bond investments fit into this category) we compute its value by using statistical sampling techniques. This process involves obtaining valuation estimates on a representative sampling of our inactively traded bonds from independent bond brokers in the geographic area where the bond was issued. The results are used to estimate the fair market value of all bonds in this category.

PEERLESS INSURANCE COMPANY

For purposes of reporting to stockholders, prior to 1978 both realized and unrealized investment gains or losses were reflected in a separate statement. Under reporting requirements of the Securities and Exchange Commission (SEC) realized investment gains have been reported in prior years in the Statement of Operations in the Company's Annual Report form 10K. To conform the stockholders report to the reporting to the SEC, realized investment gains (losses) for 1978 have been included in the Statement of Operations and the 1977 statements have been restated to conform to the 1978 presentation.

CIMARRON INVESTMENT COMPANY, INC.

A reconciliation of net income and stockholders' equity between the amounts reported to insurance regulatory authorities ("statutory basis") and amounts determined on the basis of generally accepted accounting principles follows:

	Net income		Stockholders' equity	
	1978	1977	1978	1977
	(In thousands)			
Statutory amounts for fire and casualty insurance operations	$1,342	$ 939	$ 7,552	$ 7,675
Adjustments:				
Deferred policy acquisition costs	182	1,541	4,670	4,490
Deferred income taxes	(73)	(762)	(2,180)	(2,259)
1977 audit adjustments	226	(226)	-	(226)
1978 audit adjustments	311	-	311	-
Nonadmitted assets	-	-	194	312
Loss reserves	-	-	1,507	1,080
Operations other than fire and casualty, net	54	134	1,740	1,012
Contingent commissions	(425)	-	(425)	-
Other	83	(15)	(300)	(300)
Amounts as reported in the consolidated financial statements	$1,700	$1,611	$13,069	$11,784

Section D

Business Segments

FASB Statement No. 14 "Financial Reporting for Segments of a Business Enterprise" issued in December 1976, requires that the annual financial statements of all business enterprises prepared in conformity with GAAP include information related to operations in different industries, foreign operations, export sales, and major customers.

Required disclosures include information regarding revenues, profitability, and assets by industry and for foreign and domestic operations.

In December 1977, the SEC issued Regulations S-K which, for the most part, conformed SEC line of business reporting requirements to the definitions and guidelines of Statement No. 14. The new SEC rules were effective for filing with fiscal years ending after March 15, 1978; however, because of the earlier effective date of Statement No. 14, the S-K disclosures of revenue and profit by line of business were also required for fiscal years beginning after December 15, 1976.

The application of Statement No. 14 to the insurance industry has caused considerable debate. Many companies believe that life/health insurance and property/casualty insurance each comprise one industry segment. Others, including certain members of the SEC staff, believe that life/health and property/casualty insurance comprise more than one industry segment, depending upon the individual factual circumstances.

The AICPA Insurance Companies Committee wrote the SEC in January 1978, and stated that the Committee believed that "enterprises engaged in the business of insurance would generally present industry segment information for two industry segments, a life insurance segment, and a property/liability insurance segment."

In March 1978, however, the SEC issued ASR No. 244, which stated that the "Commission has instructed its staff to carefully review the industry segments for which registrants report financial information to determine whether their segmentation is consistent with Statement No. 14," And, "companies which are determined not to have made acceptable industry segment disclosures generally will be required to amend their filings with the Commission and to communicate this additional information to shareholders in some appropriate manner."

This release also stated the word "industry" is not the key to identifying industry segments. Hence, companies previously thought to be in a single industry (e.g., insurance, finance, electronics, and chemicals) are still required to challenge whether their operations should be disaggregated.

In addition, the release gave an example of how the staff believes these rules ought to be applied to the property/liability insurance industry:

> Various types of insurance coverage (e.g., workers' compensation, automobile, homeowner's, commercial fire, other commercial liability, and professional malpractice coverage) were determined not be sufficiently similar to be grouped together as one industry segment. Therefore, property/casualty insurance companies will generally have more than one industry segment. Those segments may be some grouping of these different insurance products.

Although the SEC did not specifically address the business segment issue for life insurance companies in ASR No. 244, its review of segment disclosures for life insurance companies resulted in numerous letters from the SEC staff to registrants. These letters generally asked for additonal segment information, future disaggregation of segment disclosures, or for support for conclusions drawn.

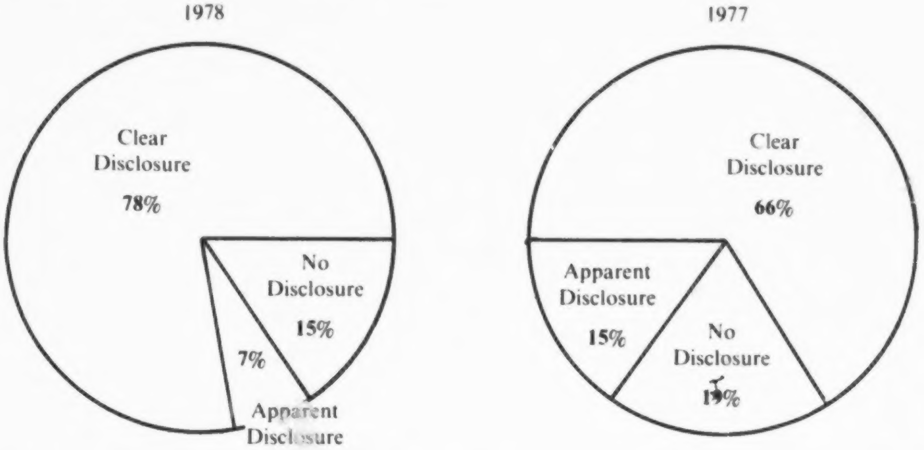
In an attempt to resolve the segment reporting questions, the Insurance Companies Committee requested from the FASB on March 21, 1978 an interpretation of Statement No. 14. The interpretation would be intended to clarify the meaning of product line, industry line, and industry segment definitions, as such definitions are used in the Statement. As of the current date, the FASB has not acted on this request.

As shown in Figure D-1, segment disclosures in 1978 annual reports were more clearly defined or designated than in 1977. The location of business segment disclosures is summarized in Figure D-2.

Also, there was a considerable increase in the number and types of segments reported by GAAP stock companies, as shown in Figure D-3. The extent to which certain segment disclosures required by either the FASB or SEC were included in 1978 annual reports is shown in Figure D-4.

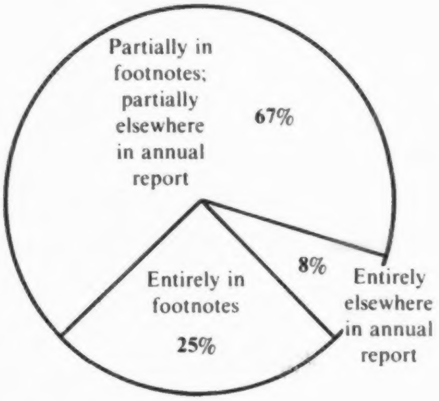
Examples of business segment disclosure, which varied from a statement as to being in one industry — property and liability insurance — to disclosure by line of business identifying specific types of products comprising a line of business are found starting on page 32.

Figure D-1. Extent of Business Segment Disclosure



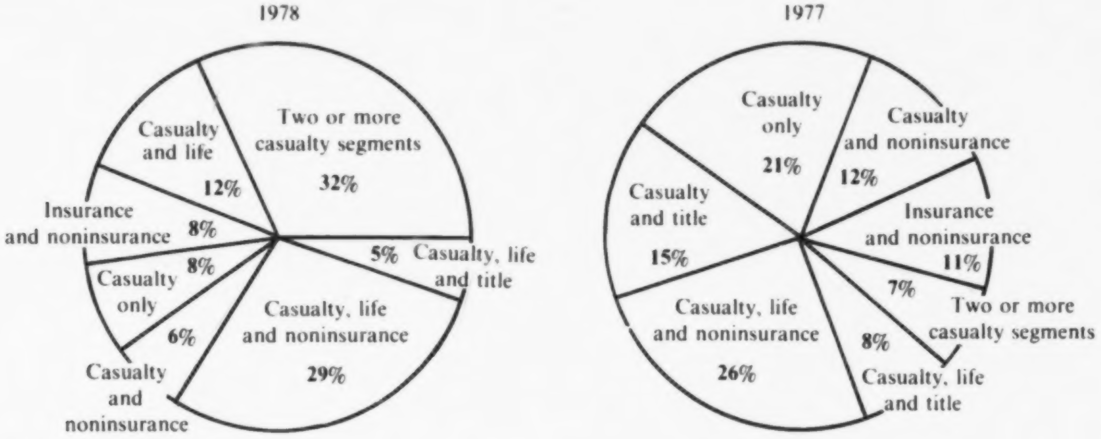
Based on 90 and 91 GAAP stock companies in 1978 and 1977, respectively.

Figure D-2. Location of Business Segment Disclosure



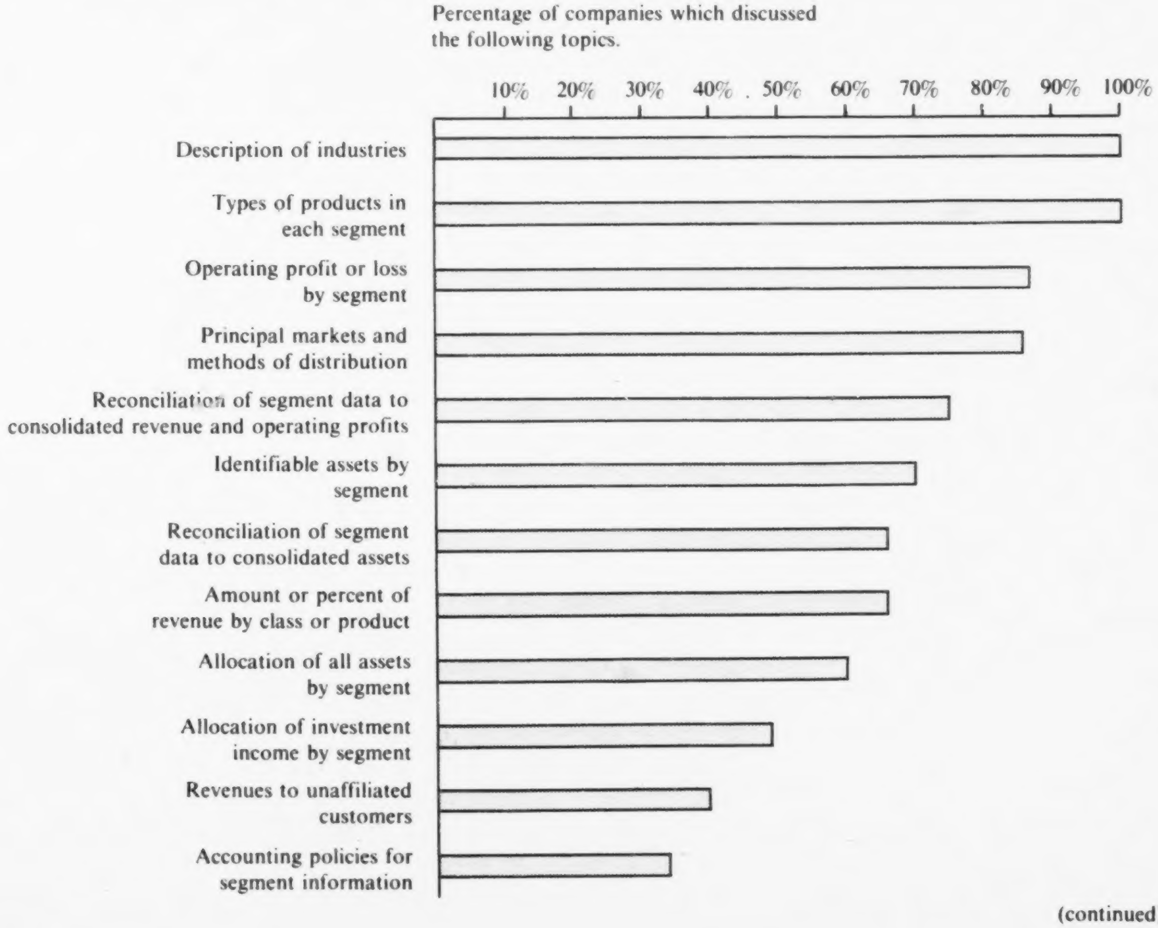
Based on 77 GAAP stock companies with business segment disclosure.

Figure D-3. Types of Business Segments Disclosed



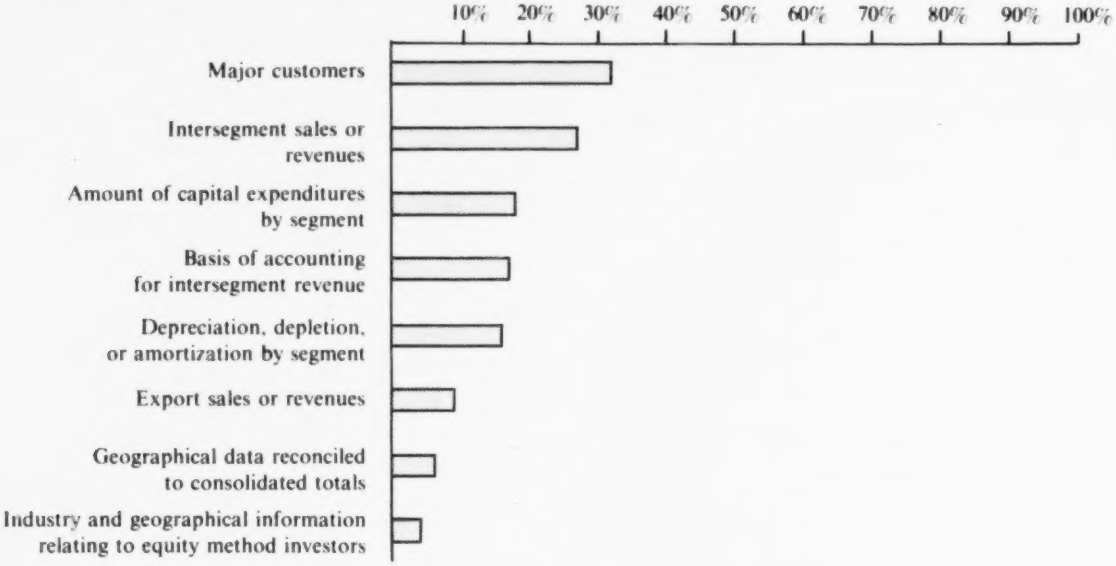
Based on 77 and 74 GAAP stock companies in 1978 and 1977, respectively, with business segment disclosure.

Figure D-4. Selected Topics Discussed in Connection with Business Segment Disclosure



(continued)

Figure D-4. Selected Topics Discussed in Connection with Business Segment Disclosure (continued)



Based on 77 GAAP stock companies with business segment disclosure.

EXAMPLES Business segment disclosures

ALLCITY INSURANCE COMPANY

Allcity considers that it operates in three business segments--auto liability (the major line of business), commercial lines, and miscellaneous personal lines. Results by business segment for the period September 7, 1977 to December 31, 1978 are summarized as follows:

	Premiums Written	Premiums Earned	Losses Incurred	Loss Adjustment Expenses Incurred	Other Underwriting Expenses Incurred	Income Or (Loss)
Auto liability	$22,563,000	$26,900,000	$12,288,000	$3,216,000	$ 6,900,000	$ 4,496,000
Commercial lines	7,529,000	7,611,000	5,894,000	1,411,000	2,763,000	(2,457,000)
Miscellaneous personal lines	2,845,000	4,173,000	2,500,000	819,000	1,656,000	(802,000)
TOTAL FROM UNDERWRITING	$32,937,000	$38,684,000	$20,682,000	$5,446,000	$11,319,000	1,237,000
Net investment income						5,441,000
Income Before Income Taxes, Realized Losses On Investments, And Extraordinary Item						$ 6,678,000

Results for the auto liability business segment have been favorably affected by reason of suspension of assignments from the assigned risk pool. Results for all segments have possibly been affected by other factors associated with Rehabilitation (see Notes 2 and 10).

It is not practicable to segregate assets by business segment.

Six general agents produced approximately 55% of Allcity's premiums for the period September 7, 1977 to December 31, 1978.

Substantially all of Allcity's business is conducted in New York State.

AMERICAN FINANCIAL CORPORATION

AFC is primarily engaged in the property and casualty insurance business. In addition to substantial banking, savings and loan and life insurance operations, it also owns between 20% and 50% of the voting equity securities of certain publicly held companies (investee corporations--see Note J). The tables below (in thousands) show AFC's revenues, operating profit and assets by significant business segment. Capital expenditures, depreciation and amortization, foreign and intersegment sales are not significant. Operating profit represents total revenues less operating expenses. Goodwill and its amortization have been allocated to the various segments to which they apply. General corporate assets and expenses have not been identified or allocated by segment since they would not be material in any respect.

REVENUES	1978	1977
Property and casualty insurance:		
Underwriting:		
Property	$ 182,387	$ 203,233
Auto liability and physical damage	192,151	190,902
Workers' compensation	148,482	132,001
Other liability	93,489	71,116
All other	86,741	91,976
	703,250	689,228
Investment and other income	116,678	104,533
	819,928	793,761
Life insurance	95,725	69,262
Savings and loan	44,666	37,044
Bank (unconsolidated)	48,742	37,312
Other segments	17,491	18,336
	1,026,552	955,715
Equity in net earnings of investee corporations	15,140	11,290
Eliminations	(16,692)	(17,005)
Total--All Companies	1,025,000	950,000
Revenues of unconsolidated bank	(48,742)	(37,312)
Eliminations	7,627	10,527
Total--Consolidated Statements	$ 983,885	$ 923,215

OPERATING PROFIT	1978	1977
Property and casualty insurance (a):		
Underwriting:		
Property	$ 20,536	$ 15,031
Auto liability and physical damage	(5,000)	(11,471)
Workers' compensation	(25)	1,095
Other liability	(183)	2,731
All other	(1,945)	6,607
	13,383	13,993
Investment and other income	83,400	82,561
	96,783	96,554
Life insurance	6,511	1,736
Savings and loan	7,476	4,685
Bank (unconsolidated)	12,910	5,730
Other segments (b)	(64,061)	(60,653)
	59,619	48,052
Equity in net earnings of investee corporations	15,140	11,290
Eliminations	(1,328)	(204)
Total--All Companies	73,431	59,138
Pretax equity in earnings of unconsolidated bank	(12,906)	(5,728)
Total--Consolidated Statements	$ 60,525	$ 53,410

(a) Net of $5.9 and $5.7 million in amortized goodwill in 1978 and 1977, respectively.

(b) Represents primarily holding company interest expense.

Assets	1978	1977
Property and casualty insurance (a)	$1,390,439	$1,324,335
Life insurance	218,229	139,904
Savings and loan	504,222	446,014
Bank (unconsolidated)	557,702	516,942
Other segments	159,370	169,204
	2,829,962	2,596,399
Investment in investee corporations	105,830	89,160
Eliminations	(85,792)	(85,559)
Total--All Companies	2,850,000	2,600,000
Bank assets less investment in bank	(511,361)	(472,863)
Eliminations	20,120	13,605
Total--Consolidated Statements	$2,358,759	$2,140,742

(a) Not allocable to lines of insurance.

A summary of financial information for major corporate groups appears on pages XX and XX.

NATIONAL SECURITY INSURANCE COMPANY

For statutory reporting purposes, the Company does not present certain information about the life/health and property/casualty industry segments of the enterprise. Such disclosure would be required by Financial Accounting Standard #14 "Financial Reporting for Segments of a Business Enterprise" for a company reporting in accordance with generally accepted accounting principles. This variance has no effect on reported net gain from operations or capital stock and surplus on a statutory basis.

SENTRY INSURANCE A MUTUAL COMPANY

As SIAMCO and its significant subsidiaries are insurance companies which maintain their accounts in conformity with accounting practices prescribed or permitted under statutory authority, the accompanying consolidated financial statements have also been prepared in accordance with statutory insurance accounting practices. Statutory insurance accounting practices vary in some respects from generally accepted accounting principles. The more significant of these differences are: ...disclosure of financial segment information as required by the Financial Accounting Standards Board (FASB), No. 14, "Financial Reporting for Segments of a Business Enterprise" is not presented;...

AMERICAN INTERNATIONAL GROUP, INC.

(a) AIG's operations are conducted through four business segments. These segments and their respective operations are as follows:

Parent and Other--AIG is a holding company owning directly or indirectly all of the capital stock of several insurance and insurance related companies both in the U.S. and abroad. The other operations include a real estate company, a ski establishment and a premium finance company. Income relating to these operations is included in other deductions--net on the consolidated financial statements.

General Insurance--The general insurance operations of AIG are multiple line property and casualty companies writing substantially all lines of insurance other than title insurance.

Life--AIG's life insurance operations offer a broad line of individual and group life, annuity and accident and health policies.

Agency Operations--AIG's agency operations are engaged in the production and management of various types of insurance for affiliated and non-affiliated companies.

The following table is a summary of the consolidated operations by major operating segments for 1978 and 1977:

	Industry Segments--1978 (Year Ended December 31, 1978)					
	Parent and Other	General Insurance	Life Insurance	Agency	Adjustments and Elimination	Consolidated
	(amounts in thousands)					
Gross Revenue	$ 40,977	$1,534,882	$ 411,230	$223,376	$ (229,661)	$1,980,804
Operating Income	$ 40,977	$ 181,778	$ 52,319	$ 33,014	$ (41,809)	$ 266,279
Equity in Net income of unconsolidated subsidiaries	$ (189)	$ 1,541	$ 589	$ 1,614	$ -	$ 3,555
Depreciation Expense	$ 6,763	$ 1,448	$ 2,743	$ 21	$ -	$ 10,975
Capital Expenditures	$ 19,449	$ 4,796	$ 3,454	$ 74	$ -	$ 27,773
Identifiable Assets*	$1,213,425	$3,175,193	$1,127,546	$502,524	$(1,387,361)	$4,631,327
	Industry Segments--1977 (Year Ended December 31, 1977)					
Gross revenue	$ 39,748	$1,241,882	$337,678	$207,855	$ (211,982)	$1,615,181
Operating income	$ 39,748	$ 143,602	$ 41,892	$ 26,554	$ (41,247)	$ 210,549
Equity in net income of unconsolidated subsidiaries	$ (42)	$ 119	$ 515	$ 863	$ -	$ 1,455
Depreciation expense	$ 436	$ 1,202	$ 1,949	$ 5,478	$ -	$ 9,065
Capital expenditures	$ 5,969	$ 7,869	$ 5,063	$ 5,453	$ -	$ 24,354
Identifiable assets*	$1,060,596	$2,527,878	$984,764	$460,429	$(1,362,825)	$3,670,842

*As at December 31, 1978 and 1977.

(b) The following table is a summary of AIG's consolidated general insurance operations by major operating categories for the years ended December 31, 1978 and 1977:

	Net Premiums				Operating Income	
	Written		Earned			
	(amounts in thousands)					
	1978	1977	1978	1977	1978	1977
Underwriting:						
Foreign	$ 535,700	$ 424,200	$ 506,400	$ 381,400	$ 52,100	$ 45,600
Commercial casualty (1)	448,700	345,100	411,400	329,200	17,700	2,800
Commercial property	255,400	233,400	250,900	213,600	24,400	31,500
Personal lines (2)	115,100	110,900	116,000	112,800	(1,100)	(400)
Reinsurance, pools and associations (3)	99,500	82,000	86,000	77,800	(8,200)	(6,500)
Personal accident and health	54,500	45,100	53,200	45,200	1,600	(1,500)
Total underwriting	$1,508,900	$1,240,700	$1,423,900	$1,160,000	86,500	71,500
Net investment income					120,600	89,600
Consolidated general insurance operating income					$207,100	$161,100

(1) Including workers' compensation and retrospectively rated risks.
(2) Including mass marketing and specialty programs.
(3) Including involuntary pools.

(c) AIG's individual life insurance and group life insurance portfolio accounts for over 90% of AIG's consolidated life insurance operating income.

(d) A substantial portion of AIG's business is carried on in foreign countries. No one country or area contributes a significant portion of AIG's operations to meet the criteria for separate disclosure as established by FASB No. 14.

	Geographic Segments (amounts in thousands) Domestic Operations		Foreign Operations		Consolidated	
	1978	1977	1978	1977	1978	1977
Revenue (1)	$1,058,900	$ 860,000	$ 921,900	$ 755,200	$1,980,800	$1,615,200
Operating income (1)	$ 118,300	$ 89,400	$ 148,000	$ 121,200	$ 266,300	$ 210,600
Identifiable assets (2)	$2,409,400	$1,880,900	$2,221,900	$1,789,900	$4,631,300	$3,670,800

(1) Twelve months ended December 31, 1978 and 1977.
(2) As at December 31, 1978 and 1977.

CRUM AND FORSTER

The Company has grouped its property-liability insurance products into nine segments and classified its investment operations as a separate segment. Non-reportable industry segments are included as "Other". Financial information by industry segment for revenue and operating income is summarized below.

Operating profit is comprised of total revenue less operating expenses. It should be recognized that the allocation of indirect or common expenses is based upon a number of assumptions and estimates. In computing operating profit none of the following items have been added or deducted: general corporate expenses, income taxes, and net realized capital gains (losses).

Assets of $2,310,753,000 and $1,877,755,000 are used exclusively in the investment segment in 1978 and 1977, respectively. The allocation of certain insurance related assets to the remaining segments would be arbitrary and in management's judgment, misleading. Accordingly, such assets are included in the corporate total and represent $718,082,000 and $573,150,000, for 1978 and 1977, respectively.

	Revenues	Operating profit (loss)	General corporate expenses	Income before federal and foreign income taxes and net realized capital gains (losses)
	Industry segments (000's omitted)			
1978				
Workers' compensation	$ 316,766	$ (8,876)		
Casualty	312,165	10,746		
Automobile--commercial	138,605	3,288		
Automobile--personal	122,687	162		
Commercial multiple-peril	187,709	14,063		
Fire, extended coverage and miscellaneous property	159,911	7,292		
Homeowners	72,879	874		
Marine	66,823	7,433		
Fidelity and surety	15,189	(4,263)		
Investments	140,839	134,511		
Other	12,828	388		
Total	$1,546,401	$165,618	$(3,301)	$162,317
1977				
Workers' compensation	$ 298,446	$(23,138)		
Casualty	245,943	11,832		
Automobile--commercial	121,679	(1,183)		
Automobile--personal	123,285	(6,436)		
Commercial multiple-peril	158,976	9,588		
Fire, extended coverage and miscellaneous property	150,976	11,918		
Homeowners	67,867	4,210		
Marine	56,589	2,701		
Fidelity and surety	10,922	(1,656)		
Investments	112,001	104,911		
Other	8,472	(323)		
Total	$1,355,156	$112,424	$(3,607)	$108,817

EMPLOYERS INSURANCE OF WAUSAU

The following presents a summary of financial position and results of operations broken down by major components:

	Assets	Liabilities	Revenues	Net Income
Property and Casualty Insurance Operations	$1,839,182,367	$1,582,373,277	$822,989,975	$78,010,265
Life Insurance Operations	139,203,484	128,478,339	120,333,287	2,746,926
Foreign Insurance Operations (1)	3,324,486	2,218,507	2,470,371	127,507
Noninsurance Subsidiaries (1)	4,094,634	194,721	2,043,245	283,725
	$1,985,804,971	$1,713,264,844	$947,836,878	$81,168,423

(1) Unconsolidated subsidiaries

KEMPER CORPORATION

Segment information
Kemper Corporation operations include the following major segments: automobile, other property, and other casualty insurance, reinsurance and life insurance. The principal products of these segments are:

Automobile, property and casualty insurance
Insuring auto, homeowner, other fire and property, workers' compensation, and other casualty and health risks.

Reinsurance
Reinsuring of property-casualty risks of domestic and foreign insurance organizations under excess of loss and pro rata reinsurance contracts.

Life insurance
Principally ordinary life insurance.

Summarized financial information for these segments is as follows for the years ended December 31, 1978 and 1977:

	Revenue (excluding net investment income)	Operating income before Federal income taxes			
1978		Underwriting gain (loss)	Net investment income	Total	Assets
Automobile	$345,447	$10,174			
Other property	162,352	10,847			
Other casualty	151,284	(9,843)			
Total	659,086	11,178	$47,987	$59,165	$1,101,940
Reinsurance	106,717	34	12,927	12,961	253,918
Life insurance	77,725	70	10,508	10,579	227,007
Other	31,864	4,281*	2,098	6,380	75,287
Eliminations	-	(897)	(897)	-	(65,823)
Consolidated	$875,393	$16,461	$72,624	$89,085	$1,592,329
1977					
Automobile	$317,697	$13,915			
Other property	140,383	4,648			
Other casualty	132,175	(8,270)			
Total	590,258	10,293	$37,403	$47,696	$ 924,831
Reinsurance	95,617	(231)	9,229	8,997	204,200
Life insurance	63,745	(499)	6,858	6,359	153,620
Other	24,233	3,111*	1,336	4,448	53,132
Eliminations	-	745	(745)	-	(46,359)
Consolidated	$773,854	$13,419	$54,082	$67,501	$1,289,425

*Other income from non-insurance units.

Underwriting gain (loss) reflects allocations of certain underwriting expenses on bases considered reasonable under the circumstances. However, it should be understood that other acceptable methods of allocation might produce different results. Allocation of investment income and assets to the automobile, other property and other casualty segments would be arbitrary and potentially misleading.

FREMONT GENERAL CORPORATION
(Footnotes)

The data for the years ended December 31, 1978 and 1977 included on page 11 of this report under Five Year Underwriting Analysis by Line provide premiums earned and underwriting profit necessary for industry segment disclosure and are an integral part of these financial statements. Foreign and intersegment sales are not significant. Following is a reconciliation of total underwriting profit as shown on page 11 to income before income taxes and net realized gains (losses) on investments as shown in the Consolidated Statements of Income (in thousands):

	Year ended December 31	
	1978	1977
Total underwriting profit	$ 9,029	$ 7,591
Net investment income	11,975	5,945
Interest expense	(1,944)	(714)
Corporate income (expense)	(227)	(87)
Income before income taxes and net realized gains (losses) on investments	$18,833	$12,735

	(Dollars in thousands) Year Ended December 31					
	1974	1975	1976	1977	1978	Five Year Total
Workers' Compensation						
Net premiums earned	$17,632	$25,014	$58,647	$104,030	$118,620	$323,943
Underwriting profit (loss)	722	2,861	3,022	6,306	2,089	15,000
Loss ratio	67.3%	61.2%	73.2%	70.1%	71.7%	70.4%
Expense ratio	23.1	21.2	18.4	17.7	19.4	19.0
Dividend ratio	5.4	6.1	3.3	6.2	7.1	6.0
Total combined ratio	95.8%	88.5%	94.9%	94.0%	98.2%	95.4%
Property and Liability						
Net premiums earned	$ 2,324	$ 2,962	$ 9,213	$ 22,468	$ 33,396	$ 70,363
Underwriting profit (loss)	(698)	(1,668)	430	511	4,746	3,321
Loss ratio	69.5%	87.8%	67.4%	69.7%	58.8%	65.0%
Expense ratio	60.5	68.4	27.9	28.0	27.0	30.3
Total combined ratio	130.0%	156.2%	95.3%	97.7%	85.8%	95.3%
Surety Bonds						
Net premiums earned	$ 152	$ 521	$ 1,230	$ 1,606	$ 3,103	$ 6,612
Underwriting profit (loss)	(33)	65	(383)	667	746	1,062
Loss ratio	79.2%	45.5%	63.1%	23.4%	26.0%	35.0%
Expense ratio	43.2	42.2	68.0	35.1	50.0	49.0
Total combined ratio	122.4%	87.7%	131.1%	58.5%	76.0%	84.0%
Reinsurance						
Net premiums earned	$ 168	$ 441	$ 2,398	$ 6,312	$ 23,935	$ 33,254
Underwriting profit (loss)	(61)	106	273	107	1,448	1,873
Loss ratio	90.8%	46.9%	65.2%	69.3%	71.7%	70.6%
Expense ratio	45.3	29.0	23.4	29.0	22.2	23.8
Total combined ratio	136.1%	75.9%	88.6%	98.3%	93.9%	94.4%
Totals						
Net premiums earned	$20,276	$28,938	$71,488	$134,416	$179,054	$434,172
Underwriting profit (loss)	(70)	1,364	3,342	7,591	9,029	21,256
Loss ratio	67.9%	63.4%	72.0%	69.4%	68.6%	69.0%
Expense ratio	27.7	26.6	20.6	20.1	21.7	21.7
Dividend ratio	4.7	5.3	2.7	4.8	4.7	4.4
Total combined ratio	100.3%	95.3%	95.3%	94.3%	95.0%	95.1%

INA CORPORATION

INA currently operates worldwide, principally in four segments: property and casualty insurance, life and group insurance, health care and investment banking. Operations in property and casualty insurance include the following categories of insurance: commercial and personal insurance written on a direct and reinsurance assumed basis. Operations in life and group insurance include the writing of most standard forms of life insurance; annuity (both fixed and variable) and pension policies, on both an individual and a group basis; individual and group accident and health insurance and reinsurance for individual and group lines. Operations in health care management include owning hospitals, managing hospitals for others and providing health care services. Operations in investment banking include securities brokerage and dealer activities, investment banking, investment advisory services and real estate advisory and investment services.

Financial data with respect to the segments is set forth below; in addition, the major product groups for the property and casualty and the life and group segments have been set forth.

The total identifiable assets of each of the insurance segments are essentially available for the payment of claims and benefits for all product lines within the segments, and there is no generally acceptable methodology for identifying such assets with specific product groups. Likewise, there is presently no generally acceptable methodology for allocating investment income to property and casualty product groups. Nevertheless, some believe that there may be a benefit to be derived from allocating assets and net investment income to product groups. The allocation of property and casualty assets is made herein in two steps. First, assets are allocated between those most appropriate to support insurance underwriting operations and those most appropriate for shareholders' equity. Secondly, the assets allocated to insurance underwriting operations under the first step are sub-allocated to product groups based upon mean adjusted reserves at the beginning and the end of the year. In turn, net investment income attributable to product groups is a derivative of the asset allocation process. Since the resultant assets and income reflect allocations, such amounts should not be considered as capital employed or actual investment earnings of the product groups. Net investment income allocated to commercial and personal product groups were $159,408,000 and $35,266,000 in 1978, respectively, and $133,427,000 and $29,057,000 in 1977, respectively.

	Years Ended December 31					
	1978			1977		
	Revenues	Operating Income Before Income Taxes	Assets (2)	Revenues	Operating Income Before Income Taxes	Assets (2)
	(Dollars in thousands)					
Property and Casualty Insurance						
Commercial	$2,039,638	$133,595	$ 3,393,137	$1,758,020	$ 85,050	$2,814,104
Personal	585,444	38,124	666,131	547,587	22,915	552,834
Other	87,422	37,459	1,092,717	75,956	39,716	932,474
Total	2,712,504	209,178	5,151,985	2,381,563	147,681	4,299,412
Life and Group Insurance						
Group	380,184	26,818	592,077	336,804	25,068	550,347
Other	363,488	29,315	1,541,271	383,300	21,166	975,145
Total	743,672	56,133	2,133,348	720,104	46,234	1,525,492
Health Care Management	397,153	28,057	422,536	323,223	22,136	373,700
Investment Banking	197,624	(10,630)	3,992,491	159,500	6,993	2,861,668
Other Operations	150,126	19,268	113,420	137,821	9,282	187,782
Adjustments (1)	24,053	(11,419)	119,922	18,482	(3,729)	54,718
Consolidated	$4,225,132	$290,587	$11,933,702	$3,740,693	$228,597	$9,302,772

(1) "Adjustments" includes eliminations arising in consolidation, the accounts of the parent company (exclusive of goodwill and the amortization thereof), and minority interests.

(2) "Assets" reflects identifiable assets for the segments with an allocation made to product groups within the property and casualty segment and life and group segment. Identifiable assets are those assets that are used in the operations of each segment, and include appropriate inter-segment loans, advances and mortgages which are eliminated from the consolidated financial statements.

Depreciation and capital expenditures are significant only with respect to health care management. Such depreciation amounted to $14,064,000 ($9,338,000 in 1977) and capital expenditures aggregated $25,311,000 ($23,215,000 in 1977).

	Year Ended December 31, 1978 (In thousands)			
	Revenues	Pretax Operating Income (Loss)	Pretax Realized Gain on Insurance Investments	Identifiable Assets at December 31, 1978
Insurance:				
Property and Casualty Underwriting				
Automobile	$ 313,633	$ 203		
Multiple Peril	157,303	12,767		
Worker's Compensation	111,216	(17,272)		
Fire and Allied	81,778	16		
Other	154,867	17,835		
	818,797	13,549		
Investment	85,973	85,973	$12,435	
Nonallocable	-	158	-	
	904,770	99,680	12,435	$1,560,541
Life and Health	96,337	7,532	19	286,497
Title	77,941	9,006	92	78,223
Container Leasing	111,490	37,241	-	317,096
Other	49,037	(14,774)	-	96,553
	$1,239,575	$138,685	$12,546	$2,338,910

	Year Ended December 31, 1977 (In thousands)			
	Revenues	Pretax Operating Income (Loss)	Pretax Realized Gain on Insurance Investments	Identifiable Assets at December 31, 1977
Insurance:				
Property and Casualty Underwriting				
Automobile	$ 308,421	$ 3,174		
Multiple Peril	133,379	10,945		
Workers' Compensation	97,542	(31,866)		
Fire and Allied	88,393	11,010		
Other	133,102	12,817		
	760,837	6,080		
Investment	72,571	72,571	$ 4,131	
Nonallocable	-	1,369	-	
	833,408	80,020	4,131	$1,331,297
Life and Health	107,559	1,309	1,436	275,315
Title	65,392	10,058	350	61,027
Container Leasing	75,685	29,003	-	191,366
Other	35,353	(18,951)	-	87,634
	$1,117,397	$101,439	$ 5,917	$1,946,639

Pretax operating income (loss) by segment is before allocation of corporate overhead. Identifiable assets by industry segment are those assets which are used in the Company's operations in each segment. Identifiable assets of the property and casualty segment exclude its investment in the life and health segment. An allocation of identifiable assets to the individual underwriting segments of the property and casualty operations is not appropriate since allocation would be arbitrary and in management's judgment, misleading.

In 1978 and 1977, respectively, capital expenditures for container rental equipment were $148,055,000 and $84,246,000 and depreciation of container rental equipment was $23,697,000 and $13,950,000. Capital expenditures and depreciation, other than for container rental equipment, were not material. Interest expense of the container leasing subsidiary was $14,146,000 in 1978 and $6,831,000 in 1977. Substantially all other interest expense relates to debentures of the parent company and financing subsidiaries.

In 1978 and 1977, respectively, foreign operations located primarily in Canada and Europe had revenues of $125,378,000 and $111,735,000 income from continuing operations before income taxes, minority interests, net realized gain on insurance investments and extraordinary income of $4,954,000 and $8,733,000 pretax realized gain on insurance investments of $1,111,000 and $665,000 and foreign currency translation loss of $3,850,000 and $2,256,000. At December 31, 1978 and 1977, respectively, foreign operations identifiable assets were $286,621,000 and $238,087,000 and liabilities were $204,230,000 and $178,085,000. Included in these amounts were net intercompany receivables of $71,295,000 and $78,578,000 at December 31, 1978 and 1977, respectively.

The revenues and identifiable assets of the Company's operations in any one foreign geographic area were less than 10% of the consolidated amounts. Containers leased to customers by the Company's container leasing subsidiary move in international commerce between and among the United States and foreign parts, aboard ocean-going ships and other modes of transportation. The movement of on-lease containers is within the general discretion of the lessees and for this reason the actual geographic location of the Company's container rental equipment is not determinable as of any particular date.

ST. PAUL COMPANIES, INC.

Here is a breakdown of the total "income" and "income before income taxes" from our Consolidated Statement of Income. It is designed to illustrate our results in 1978 and 1977 for each of the major segments of our business. The breakdown also illustrates the amount of identifiable assets of each major segment and the percent of total assets that this represents. All figures are as of December 31, 1978 and 1977.

	Income ($ in thousands)	%	Income Before Income Taxes	%
1978				
Property-liability insurance:				
Personal property and auto	$ 177,905	11.5%	$ 376	.2%
Commercial	963,425	62.5	68,930	33.1
Investment income, less related expenses	120,574	7.8	120,574	57.9
Other	4,212	.3	(9,577)	(4.6)
Total property-liability insurance	1,266,116	82.1	180,303	86.6
Life insurance	144,822	9.4	12,086	5.8
Investment banking	27,357	1.8	6,584	3.2
Consumer finance	50,020	3.2	4,809	2.3
Title insurance	49,793	3.2	4,586	2.2
Leasing	4,308	.3	3,378	1.6
Industry segments	1,542,416	100.0	211,746	101.7
Parent company	2,282	.1	(3,298)	(1.6)
Consolidating eliminations	(1,684)	(.1)	(307)	(.1)
	$1,543,014	100.0%	$208,141	100.0%

	Identifiable Assets	%
Property-liability insurance	$2,495,362	71.0%
Life insurance	425,059	12.1
Investment banking	217,345	6.2
Consumer finance	250,751	7.1
Title insurance	40,728	1.2
Leasing	10,750	.3
Industry segments	3,439,995	97.9
Parent Company	81,449	2.3
Consolidating eliminations	(10,042)	(.2)
	$3,511,402	100.0%

	Income ($ in thousands)	%	Income Before Income Taxes	%
1977				
Property-liability insurance:				
Personal property and auto	$ 172,650	12.4%	$ 512	.3%
Commercial	843,061	60.7	49,800	29.2
Investment income, less related expenses	98,241	7.1	98,241	57.7
Other	3,946	.3	(7,028)	(4.2)
Total property-liability Insurance	1,117,898	80.5	141,525	83.0
Life insurance	145,809	10.5	9,672	5.7
Investment banking	29,309	2.2	10,118	5.9
Consumer finance	43,287	3.1	5,043	3.0
Title insurance	46,122	3.3	4,464	2.6
Leasing	4,617	.3	3,502	2.1
Industry segments	1,387,042	99.9	174,324	102.3
Parent company	1,776	.2	(3,281)	(2.0)
Consolidating eliminations	(1,025)	(.1)	(644)	(.3)
	$1,387,793	100.0%	$170,399	100.0%

	Identifiable Assets	%
Property-liability insurance	$2,085,146	71.4%
Life insurance	393,612	13.5
Investment banking	129,475	4.4
Consumer finance	207,086	7.1
Title insurance	39,121	1.3
Leasing	19,749	.7
Industry segments	2,874,189	98.4
Parent company	63,670	2.2
Consolidating eliminations	(16,808)	(.6)
	$2,921,051	100.0%

Income is primarily from customers that are not related to us. In fact, for reasons explained in 1.1-2, we eliminate transactions between us and our subsidiaries or between our subsidiaries. The identifiable assets shown represent those used in our operation in each industry.

AETNA LIFE AND CASUALTY COMPANY

Summarized financial information for AEtna Life & Casualty's principal insurance operations is as follows:

	1978 (thousands)	1977
Revenue:		
Life, health and pensions:		
Group	$ 4,761,400	$ 4,028,568
Individual	814,688	747,875
Casualty-Property:		
Commercial	2,170,842	1,845,502
Personal	1,300,402	1,179,133
Other	406,372	327,636
Total revenue	$ 9,453,704	$ 8,128,714
Insurance operating earnings before federal income taxes:		
Life, health and pensions:		
Group	$ 153,193	$ 135,825
Individual	61,533	53,801
Casualty-Property:		
Commercial	283,402	246,714
Personal	119,850	100,959
Other	54,042	32,131
Total	672,020	569,430
Federal income taxes	174,902	168,063
Equity in earnings of diversified business division	20,657	16,552
Operating earnings	$ 517,775	$ 417,919
Assets:		
Life, health and pensions:		
Group	$13,061,206	$11,208,254
Individual	3,651,467	3,205,652
Casualty-Property:		
Commercial	3,129,538	2,657,337
Personal	1,223,088	1,117,289
Other	2,903,496	2,341,786
	23,968,795	20,530,318
Investments in diversified companies	299,395	276,016
Total assets	$24,268,190	$20,806,334

Investments, certain other assets and investment income are not individually identifiable by segment, and accordingly have been allocated by formula.

MISSION INSURANCE GROUP, INC.

The Company is engaged primarily in the commercial property and casualty insurance business and operates through three basic segments; the Insurance Companies' insurance underwriting, the Agencies' brokerage and agency, and investment. The insurance underwriting operations offer four principal lines of insurance workers' compensation, commercial auto casualty, excess and surplus lines, and commercial multiple peril.

Intersegment revenues consist primarily of premium earned from retained insurance risks underwritten by the insurance Companies through the Agencies and the commissions related thereto.

Operating profit by segment and principal line of insurance is operating revenue less direct expenses and indirect expenses which are deemed to be related to the respective unit's operations.

Identifiable assets by segment are those assets used in the operation of that segment. Assets are not identified by principal line of insurance. General corporate assets consist primarily of invested cash, cash, deferred bond offering expenses, and miscellaneous other assets.

Summary information about the Company's operations by segment and principal line of insurance follows:

	For The Year Ended December 31, 1978	1977
Revenues:		
From unaffiliated customers:		
Insurance underwriting:		
Workers' compensation	$130,191	$ 99,478
Commercial auto casualty	21,294	13,476
Commercial multiple peril	22,134	10,951
Other	1,151	482
	174,770	124,387
Brokerage and agency	18,784	13,212
Investment, net of expenses	15,941	10,288
	209,495	147,887
Intersegment revenues:		
Insurance underwriting:		
Excess and surplus lines	36,546	20,382
Other	10,965	7,562
	47,511	27,944
Brokerage and agency	6,154	3,823
	53,665	31,767
Consolidating elimination	(349)	(715)
Consolidated revenues	$262,811	$178,939
Operating profit (loss):		
Insurance underwriting:		
Workers' compensation	$ 1,558	$ 1,210
Commercial auto casualty	(157)	219
Excess and surplus lines	2,598	700
Commercial multiple peril	322	536
Other	(92)	(334)
	4,229	2,331
Brokerage and agency	11,142	7,600
Investment, net of expense	15,941	10,288
General corporate	(11)	(71)
Consolidating elimination	(349)	(715)
Consolidated operating profit	$ 30,952	$ 19,433
Identifiable assets:		
Insurance underwriting	$408,740	$286,461
Brokerage and agency	47,369	35,747
Investment	445,923	315,045
General corporate	747	1,315
Consolidating elimination	(456,856)	(323,523)
Consolidated assets	$445,923	$315,045

PEERLESS INSURANCE COMPANY

The Company is engaged in only one industry-Property and Liability insurance. The following table summarizes operating results by major category of business for the years 1978 and 1977:

	1978		1977	
Category of Business	Premiums Earned	Income Before Income Taxes	Premiums Earned	Income Before Income Taxes
Automobile	$53,553,529	$ 577,850	$51,065,891	$ 347,401
Workers' Compensation & Accident & Health	18,574,224	(1,201,572)	15,213,580	252,941
Property and Marine	6,332,133	508,415	4,455,477	(260,127)
General Liability	4,901,223	531,591	4,047,915	(445,701)
Fidelity and Surety	7,180,473	351,298	6,732,817	870,713
	$90,541,582	$ 767,582	$81,515,680	$ 765,227
Items not allocated to a category of business:				
Investment income, less investment expenses		6,853,448		5,187,834
Unallocated operating costs and expenses		(94,600)		
Income before income taxes and realized investment gains (losses)		$ 7,526,430		$ 5,953,061

Assets are generally not identifiable as to a category of business.

Section E

Statement of Position on Accounting for Property and Liability Insurance Companies

In 1978 the AICPA Insurance Companies Committee completed its revision of the Industry Audit Guide, *Audits of Fire and Casualty Insurance Companies*, to further define GAAP for such companies. The project began in November 1975 when the Committee distributed a discussion memorandum to solicit opinions from interested parties on a number of accounting and reporting issues. Responses to the discussion memorandum were summarized and were considered by the Committee in connection with the drafting of a paper entitled "Statement of Position on Accounting for Property and Liability Insurance Companies." The draft Statement of Position was exposed for comments. The Committee then finalized the Statement of Position, and submitted it to the FASB for approval. The final Statement of Position will be effective for annual and interim periods beginning after December 31, 1978.

A discussion of several of the more significant issues being considered by the Committee and disclosure of these issues in 1978 financial statements of the audited survey companies follows. Each issue is quoted directly from the original discussion memorandum and each position is quoted directly from the Statement of Position for convenience.

Premium revenue recognition — incidence of risk

Issue Premiums are generally collected as of the inception of the contract or installment period. Under regulatory accounting practices, such premiums are recognized as revenue evenly over the contract period, generally determined on a monthly or daily basis. This method, which was endorsed by the Audit Guide and has been generally accepted in the industry, will usually produce a proper association of premium revenues with losses and expenses that will be incurred over the contract period. However, some believe that a modification should be made to this basis of recognition where (a) the period of risk differs significantly from the contract period or (b) the incidence of risk, or the amount at risk, varies significantly during the contract period.

Position In the insurance industry, the service provided is coverage; therefore, revenue should be recognized as that coverage is provided. The incidence of losses is not relevant to the recognition of revenue but is relevant to the recognition of costs, which should be recognized as losses are incurred.

In most instances, premiums should be recognized as being earned evenly over the term of the insurance contract determined on a monthly or daily basis as the coverage is provided. In those few instances in which the period of risk varies significantly from the contract term, the premium should be recognized evenly over the period of risk. Also, in those few instances in which the amount of coverage declines according to a predetermined schedule, the premium should be recognized in proportion to the amount of coverage.

Premium revenue recognition — accounting for premium adjustments

Issue For the typical policy, the premium is fixed for the period of the contract. In most cases, that fixed amount is recognized over the contract period. However, for retrospectively rated and reporting-form policies, an estimated or deposit premium serves as a means of financing and, therefore, may only be a portion of the estimated premium. Under regulatory accounting practices, these premiums are usually accounted for in the following manner: (a) the original estimated or deposit premium is recognized evenly over the contract period with subsequent adjustments charged or credited to income as they occur, or (b) the ultimate premiums is estimated and such ultimate premium, which are revised during the contract period to reflect current experience, are recognized evenly over the period of the contract. The Audit Guide for Fire and Casualty Companies is silent on this subject and practice varies.

Position Premium adjustments (for example, adjustments on retrospectively rated and reporting-form policies) should be accounted for on the accrual basis using an estimate of the ultimate premium. The estimated ultimate premium should be revised to reflect current experience. In those rare situations in which the utlimate premium cannot be reasonably estimated, the accrual basis should not be used.

Deferral of acquisition costs — type of expenses included

Issue The Audit Guide provides little guidance as to types of acquisition costs to be deferred. As a result, the Guide has been subject to differing interpretations which have resulted in variations in practice. The principal interpretations of the Guide are as follows:

(a) Only those costs which vary directly with and are directly related to the production of business (new and renewal premiums written) should be deferred. Those who support this view believe that such costs should generally be limited to commissions and premium taxes. In some circumstances, other non-level costs similar to commissions, which are incurred at the inception of the policy and for which a direct cause and effect relationship exists, should be deferred. They believe that all other costs should be associated with the current accounting period and that no useful purpose is served by allocating such costs among several accounting periods.

(b) In addition to costs that vary directly, certain costs that vary indirectly and are directly related to the production of business should be deferred. Those who support this view believe that certain underwriting costs that vary indirectly should be allocated among several accounting periods. Other underwriting costs that are fixed should be associated with the current period as suggested by those who support (a).

(c) All costs related to the production of business should be deferred. Those who support this view believe that all underwriting costs provide benefits to several accounting periods and should be allocated in a systematic and rational manner among such periods.

Position Costs that vary with and are directly related to the production of business (new and renewal premiums written during an accounting period) should be deferred and amortized to income as the related written premiums are earned. Certain expenses, such as commissions and premium taxes, vary directly with and are directly related to the production of new business and can be associated directly with specific revenue. Other expenses, such as salaries of certain employees involved in underwriting and policy issuance functions, inspection report fees, and fees paid to boards and bureaus, may vary indirectly with the production of business but are directly related to the premiums written during the period in which the costs are incurred. Those costs meet the criteria for deferral and association with the related premiums as they are earned. Certain other costs incurred during the period, such as depreciation, collection expenses and uncollectible accounts, professional fees, and general administrative expenses, do not vary directly with and are not directly related to the production of business and therefore, should be charged to expenses as incurred.

To apply those expense recognition principles, costs should be analyzed to determine whether they can be associated with revenue. Arbitrary percentage allocations of expense classifications do not meet those criteria and therefore should not be used.

Deferral of acquisition costs — amortization methods

Issue The Guide only describes one method for estimating deferred acquisition costs referred to as "equity in unearned premiums." Some suggest that this method can distort net income when the relationship of costs incurred to premiums written varies significantly from period to period. If deferred acquisition costs are estimated based on a percentage relationship of costs incurred to written premiums, they suggest that the percentage relationship once determined, except for any adjustment related to recoverability, should continue to be applied to the applicable unearned premiums throughout the term of such policies. Further, they suggest that acquisition costs should be amortized using more precise methods such as those used for amortizing premiums in order to more properly associate such costs with premium revenues.

Position Acquisition costs should be deferred and amortized using methods such as those used for amortizing unearned premiums in order to associate more properly those costs with premium revenue. The calculations should be made by reasonable groupings of business consistent with the company's manner of acquiring, servicing, and measuring the profitability of its insurance products if deferred acquisition costs are calculated based on a percentage relationship of costs incurred to written premiums for a specified period of time, the percentage relationship and the time period used once determined should be applied to the applicable unearned premiums throughout the term of the policies, except the adjustments related to premium deficiencies.

Losses — accrual of estimated salvage and subrogation recoveries

Issue Under regulatory accounting practices, losses are recognized as incurred. Estimated liabilities are established for losses that have been reported and additional estimates are made for losses that have been incurred but have not yet been reported to the company. This accounting method was endorsed by the Audit Guide, has been generally accepted by industry, and is reaffirmed in FASB Statement No. 5.

Regulatory practices do not permit liabilities to be reduced by estimated amounts of salvage and subrogation recoveries. However, the Audit Guide is silent on this matter. And practice also varies. Those who support the statutory method believe that this method is conservative and the recognition of salvage and subrogation in advance of collection would be anticipating future income. Those who believe that salvage and subrogation should be recognized believe that liabilities for unpaid losses should be based on the best estimate of the ultimate net cost of settlement. They believe that estimates of the ultimate net costs of settlement of claims should be based on past experience adjusted for current trends and other factors which would modify past experience and that the reduction for anticipated salvage and subrogation recoveries is an integral part of the estimating process.

Position Under generally accepted accounting principles, losses should be recognized in the financial statements as incurred including estimates for losses incurred but not reported. Provisions for unpaid losses should be based on the best estimate of the ultimate cost of settlement (including the effects of inflation and other social and economic factors), reduced by estimated salvage and subrogation recoveries, using past experience. Changes in loss estimates resulting from the continuous review process and differences between estimates and ultimate payments should be reflected in income of the period in which the estimates are changed or the claim is settled.

Estimated amounts of salvage and subrogation recoverable on paid and unpaid losses should be recorded as a reduction of unpaid losses with disclosure of the amounts deducted.

Losses — discounting of loss reserves

Issue Regulatory accounting practices permit liabilities for losses to be determined based on present value of future payments of those types of losses that are payable in fixed installments over a long period of time, such as workers' compensation claims and other forms of disability insurance. The Audit Guide is silent on this subject, and practice varies.

Some believe that liabilities for losses and loss adjustment expenses should not be stated at discounted value because underwriting and investment income should be maintained separately. Others believe that liabilities for losses and loss adjustment expenses should not be stated at discounted value but that investment income should be considered in determining premium deficiencies.

Those who believe that liabilities for losses and loss expenses should be stated at discounted value suggest that investment income, excluding investment income attributable to shareholders' (members') equity, is an integral part of insurance operations and present value concepts should be applied to all liabilities which are not expected to be settled in one year, provided that the period for settling such losses can be reasonably determined.

Others believe that present value concepts should only be applied to those types of losses that are payable in fixed installments over a long period of time, such as workers' compensation and other forms of disability insurance. Those who support this view believe that:

(a) Such liabilities are contractual obligations to pay money on fixed or determinable dates as contemplated in APB Opinion No. 21.

(b) Present value concepts should only be applied to these types of losses because it is not practicable to reasonably determine the period during which other types of losses will be paid or because of the uncertainty inherent in establishing estimates of losses which will not be paid until some undetermined future date.

Position The exposure draft of this statement of position discussed the issue of whether loss reserves should be discounted, that is, whether the time value of money should be considered in determining loss reserves. Because of the importance of that issue, the division believes that it should develop a recommendation and expose for public comment its conclusions on the issue in a separate statement of position. Until the issue is resolved, companies that discount loss reserves or loss adjustment expenses should disclose that fact in their note on accounting policies together with the effects on the financial statements.

Reinsurance

Issue Under regulatory accounting practices, amounts recoverable from authorized and unauthorized reinsurers for recoveries related to unpaid losses and unearned premiums ceded are recognized in the financial statements as reductions of the related liability accounts. Amounts recoverable which are related to paid losses are treated as assets. The Audit Guide is silent on this subject and this practice has been accepted in the industry. However, some believe that all amounts recoverable from authorized and unauthorized reinsurers should be recognized in the financial statements as assets, subject to appropriate valuation allowances, rather than offsets to liability accounts. They believe that generally accepted accounting principles do not permit offsetting amounts receivable against amounts payable to unrelated parties. Those who support the offsetting of such amounts believe that, in many instances reinsurance is inextricably linked to the basic policy transaction. For example, commercial fire coverage may be provided in cases where an agent may either issue separate policies for two or more companies or may issue a single policy with agency reinsurance utilized to limit the primary carrier's risk to its stated retention. In either case, the net financial result is the same and form should not prevail over substance.

Position Amounts recoverable from reinsurers that are related to paid losses and loss adjustment expenses if applicable should be classified in the financial statements as an asset, subject to appropriate valuation allowances. Estimated amounts recoverable from reinsurers that are related to unpaid losses and loss adjustment expenses should be deducted from the unpaid losses and loss adjustment expenses with disclosure of the amounts deducted. Ceded unearned premiums do not represent receivables; therefore, those amounts should be netted against the related unearned premiums. Receivables and payables from the same reinsurer, including funds withheld, should be offset. Reinsurance premiums ceded and reinsurance recoveries on losses may be netted against the respective earned premiums and incurred losses in the income statement.

Companies should disclose (a) the nature of their reinsurance activities, (b) reinsurance premiums assumed and ceded that are included in or deducted from earned premiums (disclosure should also be made on a written premium basis if the difference is material), and (c) premiums and recoveries on catastrophe type reinsurance contracts deducted from premiums earned and losses incurred, respectively.

Policyholder dividends

Issue Under regulatory accounting practices, policyholder dividends are generally recorded as liabilities when declared by the board of directors. Some believe that such dividends should be provided on an accrual basis using best estimates of the amounts to be paid in order to associate such dividends with related premium revenues. Those who support the statutory method believe that, since the company is only legally liable for dividends declared, no additional liabilities are required.

Position Generally accepted accounting principles require the use of accrual basis accounting; therefore dividends should be accrued using best estimates of the amounts ot be paid.

Premium deficiencies

Issue The Fire and Casualty Audit Guide states that "... since the premium is expected to pay losses and expenses, and provide a margin of profit over the term of the policy, the portion measured by the unexpired term should be adequate to pay policy liabilities (principally losses and loss expenses) and return premiums during the unexpired term ..." Further, the Guide suggests that the premium should be adequate to recover any unamortized deferred acquisition costs. Paragraph 96 of FASB Statement No. 5 indicates that "... this statement does not prohibit (and, in fact, requires) accrual of a net loss (that is, a loss in excess of deferred premiums) that probably will be incurred on insurance policies that are in force, provided that the loss can be reasonably estimated ..."

The Audit Guide does not discuss premium deficiencies but with respect to determining the limitation on acquisition costs to be deferred, the Audit Guide suggests that consideration be given to (i) the anticipated loss ratio, (ii) the anticipated loss expense ratio, and (iii) the anticipated ratio of expenses subsequent to acquisition. It further suggests that the determination of these anticipated ratios requires an analysis of historical data plus knowledge of other factors such as giving greater weight to the more recent loss experience taking into account recent rate changes which would be reflected in the unearned premiums in the balance sheet.

Premium deficiencies are determinable by (a) individual lines of business, (b) reasonable groupings of lines of business consistent with the company's manner of acquiring, servicing, and measuring profitability of its business, or (c) in the aggregate. Those who favor the determination of premium deficiencies based on individual lines or groupings ((a) and (b) above) believe that such lines or groupings should be self-sustaining and that profits in one line or grouping should not be used to offset losses in another. Those who believe that premium deficiency should be determined in the aggregate believe that this method is in conformity with risk theory. They suggest that the more diverse the insurance portfolio, the less is the risk of nonrecoverability in total.

Anticipated Expenses Subsequent to Acquisition As stated above, the Audit Guide suggests that consideration should be given to anticipated expenses subsequent to acquisition. However, the Guide provides little guidance as to what types of expenses subsequent to acquisition should be considered. The Guide has been interpreted in the following manner:

(a) Only anticipated losses, loss adjustment expenses and unamortized deferred acquisition costs directly related to policies in force should be considered in determining premium deficiency. Those who support this view believe that, for purpose of determining premium deficiency, only variable expenses related to unearned premiums should be considered and that period costs should not be anticipated but should be charged to the period in which they are incurred. Further, they believe that, while certain other underwriting expenses or policy maintenance expenses may be attributable to policies in force at the the end of an accounting period, they cannot be specifically identified.

(b) In addition to anticipated losses, loss adjustment expenses and unamortized deferred acquisition costs, certain other underwriting expenses should be considered, provided that such costs may be attributed to maintaining the policies in force. Those who support this view believe that such costs can be identified and should be anticipated.

(c) Anticipated loss and loss adjustment expenses, together with all other underwriting expenses, should be considered in determining premium deficiency. Those who support this view believe that the premium was intended to cover losses, loss expenses, and all other underwriting expenses. Therefore, consideration should be given to all such expenses in determining premium deficiency.

(d) Anticipated policy dividends should also be considered in the above tests.

Anticipated Investment Income The Guide indicates that the recoverability of acquisition costs should be measured compared to underwriting results without regard to investment income. FASB Statement No. 5 is not specific with respect to how the determination of premium deficiencies should be made.

Some believe that investment income should be considered in the determination of any premium deficiency for the following reasons:

(a) The use of funds derived from the prepayment of premiums and the deferral of payment of anticipated losses and loss expenses on policies in force which give rise to investment income are considered in establishing premiums. Therefore, such investment income should be considered in determining any premium deficiency. However, some suggest that consideration should only be given to the use of funds derived from the prepayment of premiums.

(b) While investment income may not be considered in establishing premiums, such investment income should be considered as an integral part of determining whether a net loss (that is, loss in excess of deferred premiums) will probably be incurred on insurance policies in force.

Others believe that investment income should not be considered in determing premium deficiencies for the following reasons:

(a) Underwriting results and investment income are separate and distinct functions and, therefore, should not be combined in determining premium deficiencies.

(b) While there is some theoretical justification for considering investment income in determining premium deficiencies, it is not practicable to allocate investment income to unearned premiums and losses on any reasonable basis.

(c) Because of the uncertainty inherent in establishing estimates of losses which will not be paid until some undetermined future date, investment income should merely be regarded as a margin for conservatism.

Finally, others believe that investment income should not be considered solely for the purpose of determining premium deficiencies but should be considered as a part of the question of stating liabilities for losses at their present value, as discussed later herein under the caption "Losses." Some who support this view believe that unearned premiums, liabilities for losses and loss adjustment expenses and deferred acquisition costs should be considered as a "unitary reserve" stated at present value.

Financial Statement Presentation Some believe that, except in rare instances, future net losses cannot be any more reasonably estimated than can catastrophes. Therefore, they believe that the provisions of the Audit Guide and FASB Statement No. 5 have little, if any, applicability in practice.

Others believe that future net losses can be as reasonably estimated as can liabilities for incurred losses. Therefore, to comply with the Audit Guide and the requirements of FASB Statement No. 5, they suggest the following methods to provide for premium deficiencies:

(a) Any premium deficiency should first be recognized by writing off any unamortized deferred acquisition costs to the extent required. Should the premium deficiency be greater than the unamortized deferred acquisition costs, loss reserves should be provided for any additional deficiency. This method recognizes that an asset has been impaired and that such impairment should be recognized before any additional liabilities are created.(b) Additional loss reserves should be provided for the full amount of the premium deficiency with no adjustment to deferred acquisition costs. This method is supported by the view that the original premium contemplated the acquisition costs and that the deficiency is caused by losses in excess of those anticipated at the time premiums were established.

(c) Unearned premiums should be increased by the amount of any premium deficiency. This method is supported by the view that the premium deficiency cannot be attributed to either the acquisition costs or additional losses.

Although the foregoing three methods all result in the same effect on net income, each method may produce significant variations in individual elements within the income statement and the resulting loss and expense ratios. Accordingly, others believe that a distinction whether a premium deficiency is related to excess acquisition costs, excess losses, or inadequate initial premiums is unnecessary and inappropriate.They believe that any additional liability and charges to income should be treated as a separate item in the financial statements, since such amounts are related to events of the next accounting period and they should not be permitted to distort the results of the current period without adequate disclosure.

Position *Determination of Premium Deficiencies* Premium deficiencies should be determined by reasonable groupings of business consistent with a company's manner of acquiring, servicing, and measuring the profitability of its insurance products.

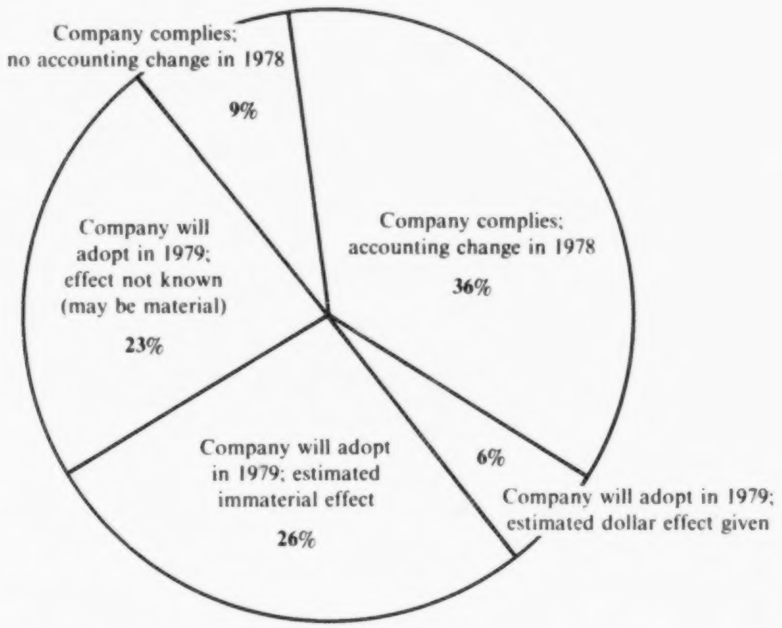
Anticipated Expenses Subsequent to Acquisition In those instances in which expected losses and loss adjustment expenses, maintenance expenses, policyholder dividends, and unamortized deferred acquisition costs exceed the related unearned premiums, a provision for the anticipated premium deficiency should be provided (in accordance with FASB Statement No. 5, paragraph 96).

Expected losses and loss adjustment expenses, expected policyholder dividends, and unamortised deferred acquisition costs should be considered in determining premium deficiencies. In addition, certain other underwriting expenses (maintenance expenses) should also be considered, provided those costs can be attributed to maintaining the policies in force.

Anticipated Investment Income The exposure draft of this statement of position discussed the issue of whether anticipated investment income should be considered in computing premium deficiencies. Because of the importance of that issue, the division believes that it should expose for public comment its conclusions on that subject in a separate statement of position. Until the issue is resolved, companies that consider anticipated investment income in computing premium deficiencies should disclose that fact in their note on accounting policies together with the effects on the financial statements.

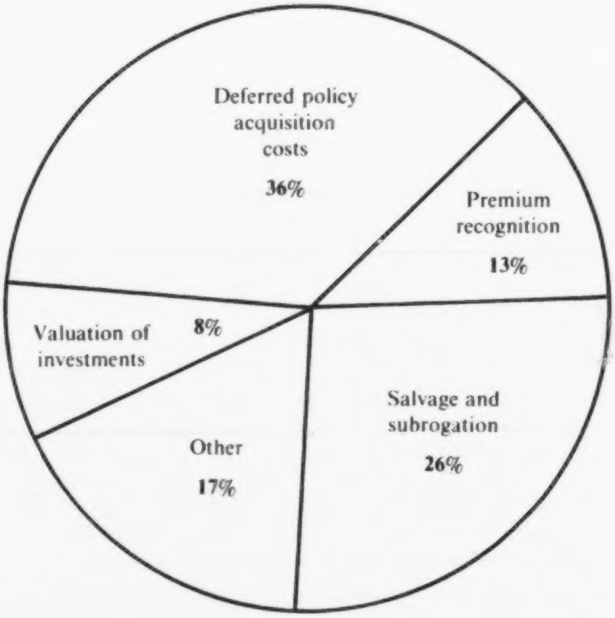
Financial Statement Presentation A premium deficiency should first be recognized by writing off any unamortised deferred acquisition costs to the extent required. Should the premium deficiency be greater than the unamortized deferred acquisition costs, a separate liability should be provided for the excess deficiency. That method recognizes that an asset has been impaired and that the impairment should be recorded before any additional liabilities are recorded.

Figure E-1. Disclosure of Statement of Position



Based on 53 stock companies discussing the Statement of Position.

Figure E-2. Accounting Changes Required



Based on 53 accounting changes disclosed by 30 survey companies as being required either in 1978 or 1979.

EXAMPLES Footnote disclosure of implementation of Statement of Position in 1978

CONNECTICUT GENERAL INSURANCE CORPORATION

In 1978 AEtna adopted provisions set forth in the Statement of Position on Accounting for Property and Liability Insurance Companies. The statement of position was promulgated by the American Institute of Certified Public Accountants to eliminate certain alternative accounting practices by property and casualty companies. This statement provides for the adoption of changes in accounting for premiums, deferred policy acquisition costs, and recoverable salvage and subrogation on losses which, in some cases, are different from those used in prior reporting.

Financial statements of prior years have been restated to apply the accounting changes retroactively. The effect of the accounting changes on operating income as previously reported for 1977 and prior years is as follows (000 omitted):

	1977	1976	1975	1974
Operating income as previously reported	$219,370	$173,310	$128,575	$125,959
Adjustments for effect of accounting change applied retroactively	2,278	2,531	2,672	1,820
Operating income as restated	$221,648	$175,841	$131,247	$127,779
Per share amounts:				
Operating income as previously reported (adjusted for 1978 stock split)	$5.31	$4.19	$3.11	$3.07
Adjustments for effect of accounting change applied retroactively	.05	.06	.07	.04
Operating income as restated	$5.36	$4.25	$3.18	$3.11

The balance of retained earnings for 1978 and 1977 has been adjusted (see Consolidated Statements of Stockholders' Equity) for the cumulative prior years' effect (net of income taxes) of applying retroactively the change in accounting. The effect of the accounting change on 1978 operating income was an increase of $3,099,000 or $.07 per share.

INA CORPORATION

In the fourth quarter of 1978, the corporation implemented the provisions of a new Statement of Position (SOP) on Accounting for Property and Liability Insurance Companies issued by the American Institute of Certified Public Accountants.

As required by the SOP, the corporation changed its accounting principles in the following areas: (a) estimates of premiums which have been earned but which have not yet been reported to the corporation are now accrued, (b) costs that vary with and are directly related to the production of business have been specifically identified and are treated as deferred acquisition costs (previously commissions, premium taxes and a predetermined portion of other underwriting expenses were deferred), and (c) estimated policyholders' dividends are accrued as the related premiums are earned (previously policyholders' dividends were recorded when paid).

The SOP requires that the changes in accounting principles be retroactively applied; accordingly, these changes had the effect of increasing consolidated assets and liabilities and decreasing consolidated shareholders' equity at January 1, 1977 by $14,112,000, $17,281,000 and $3,169,000, respectively. The effects of these changes on consolidated revenues and net income for the years 1978 and 1977 were not material; therefore, the 1977 consolidated statement of income has not been restated.

SAFECO CORPORATION

In July, 1978, the American Institute of Certified Public Accountants issued a statement of position on "Accounting for Property and Liability Insurance Companies" which recommended certain changes in generally accepted accounting principles to be implemented by restatement of prior years' financial statements. During the last quarter of 1978 the Property and Casualty Insurance Companies adopted these changes in accounting resulting in approximately a $207,000 increase in 1978 net operating income. As the changes have no significant effect on the results of operations for prior years, results of operations previously reported have not been restated; however, earned surplus of prior periods has been restated for the cumulative effect of the changes as follows:

Accrual of unbilled premium adjustments	$ 2,899,000
Accrual of additional salvage and subrogation	12,315,000
Accrual of net commissions and premium tax on unbilled premium adjustments	(406,000)
Accrual of additional loss adjustment expense	(9,385,000)
Reduction of deferred policy acquisition costs	(13,993,000)
Pre-tax total	(8,570,000)
Income tax effect	4,186,000
Decrease in earned surplus	$(4,384,000)

CNA FINANCIAL CORPORATION

Effective December 31, 1978, CNA has changed certain accounting policies to conform to those prescribed by the Statement of Position on Accounting for Property and Liability Insurance Companies issued in 1978 by the American Institute of Certified Public Accountants. In accordance with provisions of the Statement of Position, financial statements of prior years have been restated to apply the new methods.

These accounting changes consist of (a) earning premiums on certain long-term accident and health policies over the estimated premium paying period rather than the annual term, (b) deferring those variable acquisition costs which directly relate to the production of business instead of deferring all underwriting costs, (c) accruing estimated claim recoveries instead of recording such recoveries when collected and (d) accruing late-reported premiums in the period of coverage rather than the period reported. Real estate which is predominantly CNA occupied has been reclassified from investments to property and equipment. Realized gains and losses resulting from dispositions of CNA occupied real estate and investments in affiliated companies have been reclassified from realized investment gains and losses to operating income. In addition, estimated premium deficiency, if any, will be accrued on an ultimate basis rather than limiting such accrual to the extent of deferred acquisition costs, as was the previous practice.

Effect of Accounting Changes on Net Income
Year Ended December 31
(In thousands of dollars, except per share data)

	1978	1977
Increase (decrease) in net income:		
Operating income before income tax:		
Long-term accident and health contracts	$ 2,712	$ 2,807
Deferred acquisition costs	(6,068)	(6,670)
Estimated claim recoveries	3,300	2,700
Late-reported premiums	1,352	32
Sales of CNA occupied real estate and investments in affiliates	1,266	(6,155)
Operating income before income tax	2,562	(7,286)
Income tax	(57)	256
Net operating income	2,619	(7,542)
Realized investment gain, net of tax	(1,808)	6,981
Tax benefits resulting from utilization of tax loss carryforwards	617	(553)
Effect of accounting changes on net income	$ 1,428	$(1,114)
Increase (decrease) in earnings per share:		
Primary	$ .04	$ (.04)
Assuming full dilution	.02	(.02)

The cumulative effect of the accounting changes as of January 1, 1977, resulted in a net $75,114,000 decrease in retained earnings and consists of: (a) a reduction of deferred acquisition costs, $13,445,000; (b) additional insurance reserves for certain long-term accident and health contracts, $80,330,000; (c) an accrual of estimated claim recoveries, $16,700,000; (d) an accrual of late-reported premiums, $1,800,000; and (e) other changes increasing retained earnings, $161,000. No income tax benefits are attributable to the cumulative effect of these accounting changes because of CNA's net operating loss carryforwards.

AMERICAN INDEMNITY FINANCIAL CORPORATION

In 1978 the Company adopted, on a retroactive basis, the provisions of Statement of Position 78-6 "Accounting for Property & Liability Insurance Companies", issued in November 1978 by the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants. Specifically, the Company was required to exclude from its computation of deferred acquisition cost those acquisition costs of a general nature which are not directly related to the production of business. Such costs had previously been included in deferred acquisition costs in accordance with generally accepted accounting principles in use at that time. As a result of the change deferred acquisition costs and retained earnings at January 1, 1977 were decreased by $877,793 and $456,452, respectively, and income before investment transactions for the years ended December 31, 1978 and 1977 were decreased by $183,523 ($.15 per share) and $45,976 ($.05 per share), respectively.

AETNA LIFE AND CASUALTY COMPANY

The American Institute of Certified Public Accountants has issued a statement of position entitled "Accounting for Property and Liability Insurance Companies". The principal changes resulting from the application of this statement are recognition of estimated earned but unrecorded premium revenue and elimination of certain types of costs from deferred acquisition expense. The cumulative effect of these changes increased operating earnings by $7,977,000 and has been recorded in the fourth quarter of 1978. Prior periods have not been restated since the effects of the changes are not material to either the fourth quarter or to the other periods affected.

TRANSAMERICA CORPORATION

Certain amounts in 1977 have been restated, in accordance with newly issued accounting guidelines for property and liability insurance companies, to reflect the deferral and amortization of certain additional premium acquisition costs and the inclusion in revenue of previously deferred insurance premiums. The effect of these changes was to increase consolidated net income for 1977 by $1,473,000 ($0.02 a share), after $1,695,000 income tax effect. These changes increased consolidated retained earnings by $8,080,000 at January 1, 1977. In 1978 net income includes $2,786,000 ($0.04 a share), after $2,596,000 income tax effect, relating to these changes.

WESTERN INSURANCE COMPANIES

Statement of Position 78-6 issued by the American Institute of Certified Public Accountants (SOP 78-6) during 1978 and accepted by the Financial Accounting Standards Board, has been applied in the 1978 financial statements with figures for prior years retroactively restated. Application of the provisions of SOP 78-6 caused modifications to be made in the computation of deferred acquisition costs, contingent commissions and dividends to policyholders, as well as an adjustment of unrealized investment gains to reflect preferred stocks, which must be redeemed by the issuer, on the basis of amortized cost rather than at market values. The cumulative effect, net of Federal income taxes, of these adjustments for periods prior to 1977 amounted to $1,203,630 of which $623,094 relates to reductions of items affecting prior years' GAAP earnings, and $580,536 results from the downward restatement of unrealized gains on preferred stock. Earnings for 1977 have not been changed as the adjustments required for compliance with SOP 78-6 were immaterial; however, certain amounts have been reclassified to conform with the 1978 presentation. For 1978, the changes required to comply with SOP 78-6, amounting to a reduction in earnings, net of Federal income taxes, of approximately $920,000, have been reflected in the fourth quarter with previous interim periods not restated as the changes for each of these quarters were immaterial.

INTEGON CORPORATION

During 1978 the American Institute of Certified Public Accountants issued a Statement of Position on Accounting for Property and Liability Insurance Companies. Where appropriate, accounting methods were changed as of December 31, 1978 to conform with the statement. These changes do not individually or in the aggregate have a significant effect on the company's consolidated financial statements.

EXAMPLES Footnote disclosure of planned implementation of Statement of Position in 1979

OLD REPUBLIC INTERNATIONAL CORPORATION

The Statement of Position on Accounting for Property and Liability Insurance Companies issued by the Accounting Standards Division of the American Institute of Certified Public Accountants is effective for annual and interim periods beginning after December 31, 1978, and prescribes accounting for certain items such as premiums, deferred acquisition costs, and salvage and subrogation. The Company intends to adopt these changes effective with the first quarter of 1979 but has not made a determination of the effect of such changes on the consolidated financial statements. Also under consideration by the accounting standard division is the accounting practices followed by title insurance companies, particularly the accounting methods pertaining to revenue recognition, losses, loss adjustment expenses, and title plants. The Company believes that any changes required as a result of the adoption of these accounting changes for title companies would not have a material effect on the consolidated financial statements.

AMERICAN EXPRESS COMPANY

In October 1978, the American Institute of Certified Public Accountants (AICPA) issued a Statement of Position (SOP) which amends the AICPA industry audit guide, Audits of Fire and Casualty Insurance Companies. The SOP clarifies the accounting principles to be applied in accounting for certain transactions and is effective for periods beginning after December 31, 1978. The Company intends to implement the SOP in the first quarter of 1979.

The SOP requires that the changes in accounting principles, if material, be retroactively applied. Accordingly, the 1978 and prior financial statements will be restated in 1979. Management anticipates that the changes will increase shareholders' equity at December 31, 1978 by approximately $45.0 million and that the effect on net income for 1978 and 1977 will be immaterial.

ERC CORPORATION

In October, 1978, the American Institute of Certified Public Accountants released a Statement of Position (SOP) on Accounting for Property and Liability Insurance Companies which is effective for periods beginning after December 31, 1978. The Corporation intends to implement the SOP in 1979.

Implementation of the SOP will result in the following changes in accounting principles: (a) all costs that vary with and are directly related to the production of business will be considered deferrable acquisition costs (currently only commissions and brokerage are deferred), (b) anticipated salvage and subrogation recoveries will be recorded as the gross losses are recorded (currently salvage and subrogation recoveries are recorded on a cash basis), and (c) investments in preferred stocks that by their terms must be redeemed by the issuing company will be carried at amortized cost (currently carried at market value).

The SOP provides that the changes in accounting principles be applied retroactively, and accordingly the 1978 and prior financial statements will be restated in 1979. Although the net effect of these changes has not been determined, it is anticipated that the effect on stockholders' equity at December 31, 1978 will be moderately favorable.

PROTECTION MUTUAL INSURANCE COMPANY

In 1978, the American Institute of Certified Public Accountants approved and adopted "Accounting for Property and Liability Insurance Companies", which is effective for the year ending December 31, 1979. This Statement of Position includes generally accepted accounting principles for property and liability insurance companies which differ from the Company's current practices in certain respects, principally with respect to the deferral and amortization of certain policy acquisition costs over the related policy period, rather than the expensing of such costs as incurred. The Company intends to change its method of accounting during 1979 to comply with the Statement of Position. If the effect is material, financial statements for 1978 and prior will be restated to the principles set forth in the Statement of Position. The Company has not determined the effect of adopting the Statement of Position.

TRAVELERS CORPORATION

In 1978, the American Institute of Certified Public Accountants amended the accounting and financial reporting principles for casualty-property insurance companies effective in 1979. The Travelers will adopt these amendments in the first quarter of 1979. It is expected that these changes will have no material effect on consolidated operating income for the years 1974-1978.

CHUBB CORPORATION

In October 1978, the American Institute of Certified Public Accountants issued its Statement of Position (SOP) on Accounting for Property and Liability Insurance Companies which is effective for periods beginning after December 31, 1978. It is the Company's intent to implement the changes in accounting principles during the first quarter of 1979. The changes affecting the Company are: (a) additional premiums on retrospectively rated policies and audit premiums on reporting form policies will be accrued on an estimated basis throughout the policy term (currently recorded on a written basis); (b) all costs that vary with and are directly related to the production of business will be considered deferrable acquisition expenses (currently commissions, premium taxes and a percentage of other underwriting expenses are deferred); (c) anticipated salvage and subrogation recoveries will be accrued (currently recorded on a cash basis).

The SOP requires that the changes in accounting principles be retroactively applied, and accordingly, the 1978 and prior financial statements will be restated in 1979. It is anticipated that the changes will not materially affect 1977 and 1978 net income. Shareholders' equity at December 31, 1978 will increase approximately $27,000,000.

SEIBELS BRUCE GROUP, INC.

In 1978 the American Institute of CPA's issued the Statement of Position ("the SOP") on Accounting for Property and Liability Insurance Companies, which is effective for annual and interim periods beginning after December 31, 1978. This SOP recommends certain generally accepted accounting principles for property and liability insurance companies which differ from the Company's current practices. The Company intends to change its method of accounting during the quarter March 31, 1979 to comply with the SOP. Financial statements for 1978 and prior may be restated. The Company has not determined the effect of adopting the SOP.

Section F

Foreign Corrupt Practices Act and Public Reporting on Internal Control

All companies, whether they operate outside of the United States or not are affected by the Foreign Corrupt Practices Act of 1977 (the "Act"). The Act sets fines and penalities for any corporation and its officers and directors engaging in foreign bribery, but it also amends the Securities Exchange Act of 1934 to require **all** publicly held companies to maintain accurate records and adequate systems of internal control. These accounting provisions apply equally to U.S. companies whether or not they are involved in international activities.

The Act requires publicly held companies to:

> Devise and maintain a system of internal control sufficient to provide reasonable assurance that assets are safeguarded and that transactions are properly authorized and recorded, and keep reasonably detailed records which accurately and fairly reflect financial activities.

In general, most property/liability insurance companies already do these things; they are essential to sound business practices. But now, these responsibilities have been codified and made part of the 1934 Act.

The SEC has proposed that companies publicly report on whether their system of internal control meets the specified objectives of the Act. Public reporting by management would begin with annual reports to shareholders and Form 10-Ks for fiscal years ending after December 15, 1979. In reports for years ending before December 16, 1980, companies would be required to tell whether their systems, **as of year end,** meet the requirements for internal controls and to disclose if any "material weaknesses" (as defined in the professional auditing literature) were pointed out by the auditors and were not corrected by year end.

Beginning with annual reports for years ending after December 15, 1980, the report on controls would cover the full year, not just year end. And a company would have to disclose if it discovers system flaws other than those caused by "changing circumstances."

In the reports for years ending before December 16, 1980, auditors would be required only to continue to communicate to management and directors any material weaknessess that they identify in their normal audit. But for calendar year 1980 and later reports, they would have to examine management's report on internal controls, and give an opinion in the annual report and Form 10-K as to whether the management report (1) is consistent with management's actual findings and evaluation, and (2) is reasonable as to transactions and assets which are material to the financial statements. This proposed requirement represents a significant expansion of the traditional scope of auditors' examinations with respect to internal accounting control.

Based on the many public statements made by representatives of the SEC over the past several months, it is likely that final rules will be adopted for public reporting. The SEC implies that companies should make any necessary changes in their system before the end of their next fiscal year so that their year end and future management reports can be unqualified. Since there will be a "one time" opportunity to make changes in internal controls without having to report any weaknesses, companies should prepare now for reporting under the SEC proposal.

The SEC release stresses that the fulfillment of management's responsibilities should be documented. Many companies have been reviewing and documenting their systems to demonstrate their compliance with the Act. In light of this proposal, companies should assess the status of their review.

Many companies, especially smaller ones, have relied on their auditors to test the operation of their system. The SEC believes management should review, monitor, and test its system in order to fulfill its responsibilities. The SEC also believes that the system must be adequate to provide interim financial reports and information of the same quality as annual financial statements.

A systematic approach to evaluating internal control will be valuable not only to SEC-regulated property/liability insurance companies, but also to mutual companies, reciprocal exchanges, and non-SEC stock companies.

To assist management and directors of life insurance companies in documenting and evaluating their systems of internal control, Ernst & Whinney has published **Evaluating Internal Control: Property/**

Casualty Insurance (E&W No. 58146). This Guide and the related documentation supplement (E&W No. 58151) suggest a practical approach to documenting control that results in clear, easy to understand statements of how a property/liability insurance company achieves the objectives of the Acts' accounting provisions. The Ernst & Whinney publications, **Evaluating Internal Control,** E&W No. 58145 for life insurance companies and E&W No. 33841 for commercial and industrial companies, may be useful in evaluating controls of life and noninsurance subsidiaries of property/liability insurance companies.

Of the companies included in the survey, 16 included a "management report" or commented on managements' responsibilities in their 1978 annual reports. These reports or representations generally discussed management's responsibilities for the financial statements and commented on such related subjects as the adequacy of internal control and the roles of the audit committee and the internal and independent auditors.

EXAMPLES Management's reports or representations

AETNA LIFE AND CASUALTY COMPANY
(Preparation of Financial Statements)

The financial statements of AEtna Life & Casualty are the product of a number of processes that involve many participants.

These processes include the gathering together of financial data developed from the records of the Company's day-to-day business transactions. Informed judgments and estimates are used for those transactions that are not yet complete or for which the ultimate effects cannot be precisely measured. The Company emphasizes the selection and training of personnel who are qualified to perform these functions. In addition, Company personnel are subject to rigorous standards of ethical conduct that are widely communicated throughout the organization.

The Company has also established internal accounting controls designed to provide reasonable assurance that its assets are safeguarded and that its transactions are executed and recorded properly. Company personnel throughout the organization maintain and monitor these internal accounting controls on an ongoing basis. In addition, the Company's Internal Audit Department systematically reviews and reports upon the functioning of these controls with the right of full access to all Company personnel.

The Company currently engages, with the approval of the Company's shareholders, the firm of XXX as independent auditors, to examine AEtna Life & Casualty's financial statements and express their opinion thereon. The examinations of XXX includes reviews and tests of the Company's internal accounting controls to the extent they believe necessary to determine and conduct the audit procedures which support their opinion. Members of that firm also have the right of full access to each member of management in conducting that examination. The report of XXX appears below.

Finally, the Board of Directors of the Company has an Audit Committee composed solely of nonofficer directors. The Committee meets regularly with the management, the internal auditors, and the Company's independent auditors to review the work of each and to inquire of each as to their assessment of the performance of the others in their work relating to the Company's financial statements. Both the independent and internal auditors have at all times the right of full access to the Audit Committee, without management present, to discuss any matter that they believe should be brought to the attention of the Committee.

AMERICAN EXPRESS COMPANY
(Responsibility for Preparation of Financial Statements)

The management of American Express Company is responsible for the preparation of the financial statements and footnotes included in this annual report to shareholders. The statements have been prepared in conformity with generally accepted accounting principles and, as such, include amounts based on the best judgments of management. Financial information included elsewhere in this annual report is consistent with these financial statements.

The Company's independent certified public accountants, XXX, are engaged to express an opinion on our financial statements. As auditors, they also provide an objective, outside review of management's responsibility to report operating results and financial condition. Working with our internal auditors, they review and test our system of internal accounting controls and the data included in the financial statements. They also have free access to the Audit Committee of the Board of Directors which reviews the scope and results of their examination at periodic meetings. Names of the Audit Committee members are on page 62; a description of the Committee's responsibilities is on page 64.

(Information and Internal Control Systems)

American Express Company maintains effective information and internal control systems. These systems have been adapted to keep pace with the growth and expansion of the Company and its subsidiaries.

In 1978, the Company began to implement two new information and control systems: a worldwide Chart of Accounts system for uniform data definition and a Journal Entry System for uniform transaction classification. These systems will improve control over data from the origination of transaction to its inclusion in management reports.

XXX
Chairman

XXX
President

XXX
Senior Vice President--
Financial Administration

(Editor's Note--Sections on planning, information and control; planning; management reporting; development of financial managers; internal auditing: and analysis have been deleted.)

(Report of Management)

We have prepared the accompanying statement of financial position of General Electric Credit Corporation and consolidated subsidiaries as of December 31, 1978 and 1977, and the related statements of current and retained earnings and changes in financial position for the years then ended including the notes thereto. The financial statements have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances and include amounts that are based on our best estimates and judgments. Financial information elsewhere in this report is consistent with that in the financial statements.

The Corporation maintains a strong system of internal financial controls and procedures supported by the General Electric Company corporate staff of traveling auditors and supplemented by its own staff of traveling auditors. This system is designed to provide reasonable assurance, at appropriate cost, that assets are safeguarded and that transactions are executed in accordance with management's authorization and recorded and reported properly. The system is time-tested, innovative and responsive to change. Perhaps the most important safeguard in this system is the fact that the Corporation in connection with General Electric Company has long emphasized the selection, training and development of professional financial managers to implement and oversee the proper application of its internal controls and the reporting of management's stewardship of corporate assets and maintenance of accounts in conformity with generally accepted accounting principles.

The independent public accountants provide an objective, independent review as to management's discharge of its responsibilities insofar as they relate to the fairness of reported operating results and financial condition. They obtain and maintain an understanding of the Corporation's accounting and financial controls and conduct such tests and related procedures as they deem necessary to arrive at an opinion on the fairness of the financial statements.

The Audit Committee of the Board of Directors, composed solely of Directors who are not employees of the Corporation but who are employees of General Electric Company, meets periodically with the independent public accountants to discuss the results of the audit work and their opinions on the adequacy of internal financial controls and the quality of financial reporting. The independent public accountants have free access to this Committee.

Management has long recognized its responsibility for conducting the Corporation's affairs in a manner which is responsive to the ever increasing complexity of society. This responsibility is reflected in key Corporation policy statements regarding, among other things, potentially conflicting outside business interests of employees, proper conduct of business activities and compliance with antitrust laws. Educational, communication and review programs are designed to ensure that these policies are clearly understood and that there is an awareness that deviations from them will not be tolerated.

XXX
President

XXX
Vice President-Finance

KEMPER CORPORATION
(Management's Responsibility for Financial Reporting)

Kemper Corporation's consolidated financial statements, which appear on the following pages, were prepared by management in conformance with generally accepted accounting principles appropriate in the circumstances. The notes to the financial statements are an integral part of the financial statements and should be read in conjunction therewith.

The financial statements are presented on the accrual basis of accounting and therefore include some amounts based upon the judgment of qualified personnel. The financial information included elsewhere in this annual report is consistent with that included in the financial statements.

The company is responsible for the credibility and the integrity of the financial statements. The organizational structure, accounting procedures, and system of internal controls are designed to provide reasonable assurance that assets are protected and that the books and records properly reflect the transactions of the company.

The insurance subsidiaries are subject to state regulation. As such, their accounting records also are designed to conform with state regulatory reporting requirements. All purchases and sales of investments are approved by the finance committees of the boards of directors and quarterly reports are made to each company's board.

An internal audit department is maintained. The staff audits home office functions and field offices. The department manager meets with the audit committee of the board of directors, and he has the authority to contact the audit committee at any time as circumstances warrant.

The audit committee of the board of directors, which is comprised of three outside directors, has general administration over internal control and financial reporting. No member of this committee is an officer or employee of the company. The independent auditors also have direct access to the audit committee and meet with the committee periodically to discuss the scope of each audit, the results of the audit and other pertinent matters.

The financial statements for the years ended December 31, 1978 and December 31, 1977 have been examined by XXX, independent public accountants. Their examination was conducted in accordance with generally accepted auditing standards which includes a review of internal accounting controls and such tests of the accounting records and such other auditing procedures as they considered necessary. Their report on the audit appears on page 45.

AMERICAN RE-INSURANCE COMPANY
(Corporate Practices)

The Consolidated Financial Statements contained in this annual report, which incorporate the accounts of American Re-Insurance Company and its subsidiaries, have been prepared in conformity with generally accepted accounting principles.

Management assumes the responsibility for the integrity and objectivity of the data presented in these financial statements, through a constructive program of internal audits and a system of internal controls. The Company seeks to assure the objectivity and integrity of its accounts by careful selection of its management, by organizational arrangements that provide an appropriate division of responsibility and by communication programs aimed at assuring that its policies and procedures are clearly understood within the organization.

These financial statements have been examined by the Company's outside auditors, XXX, and their opinion is shown herein. The auditors' opinion expresses an informed judgment as to whether Management, considered in their entirety, have presented fairly, in conformity with generally accepted accounting principles, the Company's financial condition and results of operations. Their opinion is based on procedures which include obtaining an understanding of the Company's systems and procedures and performing tests and other procedures sufficient to provide reasonable assurance that the financial statements neither are materially misleading nor contain material errors. While our auditors have made extensive tests of the Company's procedures, it is neither practical nor necessary for them to scrutinize all of the Company's transactions.

The Board of Directors pursues its responsibility for these financial statements through its Audit Committee, composed of Directors, none of whom are officers or employees of American Re-Insurance Company or its subsidiaries, which meets periodically with both Management and the Independent Certified Public Accountants to assure that each is carrying out their responsibilities. The independent outside auditors have full and free access to the Audit Committee and meet with it, with and without Management being present, to discuss auditing and financial reporting matters.

XXX
Vice President and Treasurer

AMERICAN CREDIT CORPORATION
(Management's Statement of Responsibility)

The management of American Credit Corporation is responsible for the fairness and integrity of the financial information included in this annual report. In keeping with this responsibility, management has prepared the financial statements contained herein in accordance with generally accepted accounting principles to present fairly the Company's consolidated financial position and results of operations for the years ended December 31, 1978, and 1977. As stated in their report, XXX, independent auditors, have examined the Company's consolidated financial statements in accordance with generally accepted auditing standards and have expressed an informed opinion thereon.

Adequate accounting systems and related controls are maintained to provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that accounting records are reliable for preparing financial statements. The concept of reasonable assurance is based on recognition that some errors or irregularities may occur and that the cost of such systems should not exceed benefits to be derived therefrom. Management believes that the Company's accounting system and related controls provide an appropriate cost-benefit balance.

American Credit's accounting systems and related controls are continuously reviewed through a program of audits, both by the internal audit staff and independent auditors. Activities of both groups are coordinated to ensure that proper audit coverage exists with minimum duplication of cost. The internal audit staff renders copies of its reports to the independent auditors, as well as to the audit committee of the board of directors, and access is readily available to all internal audit working papers.

The audit committee of the board of directors, composed solely of outside directors, meets with the independent auditors, management and internal audit staff periodically to review the work being performed and to ensure that responsibilities are being properly discharged by each group. The independent auditors and internal audit staff have unrestricted access to the committee to discuss such matters as results of audit work, opinions on the adequacy of internal accounting controls and evaluation of financial reporting quality.

LINCOLN NATIONAL CORPORATION
(Responsibility for Financial Statements)

The following financial statements were prepared by the Lincoln National management which is responsible for their integrity and objectivity. The statements have been prepared in conformity with generally accepted accounting principles and, as such, include amounts based on estimates and judgments of management.

The Lincoln's internal controls, policies, and procedures are designed to provide reasonable assurance as to the integrity of the financial records and the protection of assets. A staff of internal auditors monitors compliance with these controls, policies, and procedures.

XXXXX, independent auditors, have examined these financial statements. Their examination is conducted in accordance with generally accepted auditing standards which includes an understanding of the Lincoln National accounting and financial controls. They conduct such tests and related procedures as they deem necessary to arrive at an opinion on the fairness of the financial statements. Their report appears on page 33.

The Board of Directors is responsible for engaging the independent auditor for assuring that management fulfills its responsibilities in the preparation of the financial statements. An Audit Committee of the Board meets periodically with management, the internal auditors, and the independent auditors, both separately and jointly, to enable the Board to fulfill this responsibility. The Audit Committee consists of three Directors who are not otherwise employed by the Lincoln. The membership of the Audit Committee is listed on page 34.

STATESMAN GROUP, INC.
(Responsibility for Financial Reporting)

We have prepared the consolidated financial statements and related notes on pages 8 through 16 in accordance with generally accepted accounting principles considered appropriate in the circumstances. Accordingly, in the preparation thereof, management has made informed judgments and estimates of the expected effects of events and transactions that are currently being accounted for.

To meet management's responsibility for financial reporting, internal control systems and procedures are designed to provide reasonable assurance as to the reliability of the financial records. In addition, the Company maintains a program for communicating corporate policy throughout the organization, and the internal audit staff monitors compliance with these policies and internal control systems and procedures.

These consolidated financial statements have been examined by independent auditors. To express their opinion as to the fairness of the statements in conformity with generally accepted accounting principles, they review and evaluate accounting controls and conduct such tests and other procedures as they deem necessary. The Audit Committee of the Board of Directors meets with the independent auditors, management, and internal audit--both jointly and separately--to review accounting, auditing and financial reporting matters.

XXX
Vice President-Finance and Treasurer

SENTRY INSURANCE A MUTUAL COMPANY
(Responsibility for Financial Statements)

The following consolidated financial statements of Sentry Insurance a Mutual Company and Subsidiaries were prepared by the management which is responsible for their integrity and objectivity. The statements have been prepared in accordance with statutory insurance accounting practices. The statements include amounts based on judgments and estimates of management which have particular significance in the liabilities provided for outstanding claims and benefits.

XXX, independent certified public accountants, have examined the consolidated financial statements of Sentry Insurance a Mutual Company and Subsidiaries. Their examination is conducted in accordance with generally accepted auditing standards which include a review of internal controls and a test of transactions. The Accountants' Report appears on page 30.

The Board of Directors, through its Audit Committee consisting of outside directors, is responsible for reviewing and monitoring the Companies' financial reports and accounting practices. The Audit Committee discusses audit and financial reporting matters with both management and XXX. To ensure complete independence, the certified public accountants have full and free access to meet with the Audit Committee, with or without the presence of management representatives.

XXX
Chairman of the Board
and Chief Executive Officer

XXX
Executive Vice President-Finance

Section G

Proxy Statement Changes in 1979

Summary and Current Status

During 1978, the SEC amended its proxy rules and regulations for publicly traded companies required to solicit proxies in connection with annual shareholder meetings. The new changes require substantial increases in disclosures regarding the composition and functioning of a company's board of directors, the reporting of management remuneration, and the relationship of a company with its independent accountants.

Ernst & Whinney publications concerning these changes to the general rules governing proxy solicitation are contained in an E&W booklet, *Proxy Statements: An Overview of the Requirements* (E&W No. 38958), which includes a summary of the general rules and disclosure requirements of proxy statements; and an E&W pamphlet, *SEC Proxy Disclosure of Relationships with Auditors* (E&W No. 38880), which covers, in detail, the requirements of ASR No. 250 and SAB No. 25.

The new disclosures regarding the composition and functioning of a company's board of directors are to allow shareholders to assess how independent directors or nominees are from the company. The disclosures now required include detailed descriptions of the background of each director or nominee, their relationship or dealings with the company or other board members, the identity and description of various committees of the board of directors, and the number of meetings held by the board and its various committees annually.

Changes in the reporting of management remuneration were made partially to recognize the increasing complexity of management compensation packages.

The rules now require the five highest paid executives, officers, or directors of the registrant or its subsidiaries that earn over $50,000 to be listed separately in a remuneration table. Compensation is now required to be separated into one of the following three categories:

> Current salary, fees, bonuses, commissions, and directors fees
>
> Nonmonetary compensation, such as stock or other property distributed during the year; personal benefits (perks) and deferred compensation, the payment of which is not contingent upon future events, and
>
> Deferred compensation that is in part dependent upon future events, including amounts expensed under retirement plans, deferred profit sharing, or stock appreciation rights.

The required proxy statement disclosures regarding a company's relationship with its independent accountants were intended to strengthen the independence of the accountants. The disclosures required include the principal accounting firm selected or recommended to shareholders for the current year, a statement as to whether representatives of the above firm would be attending the annual meeting, and if the registrant changed accounting firms during the year, a disclosure is required as to whether the audit committee or full board approved the change.

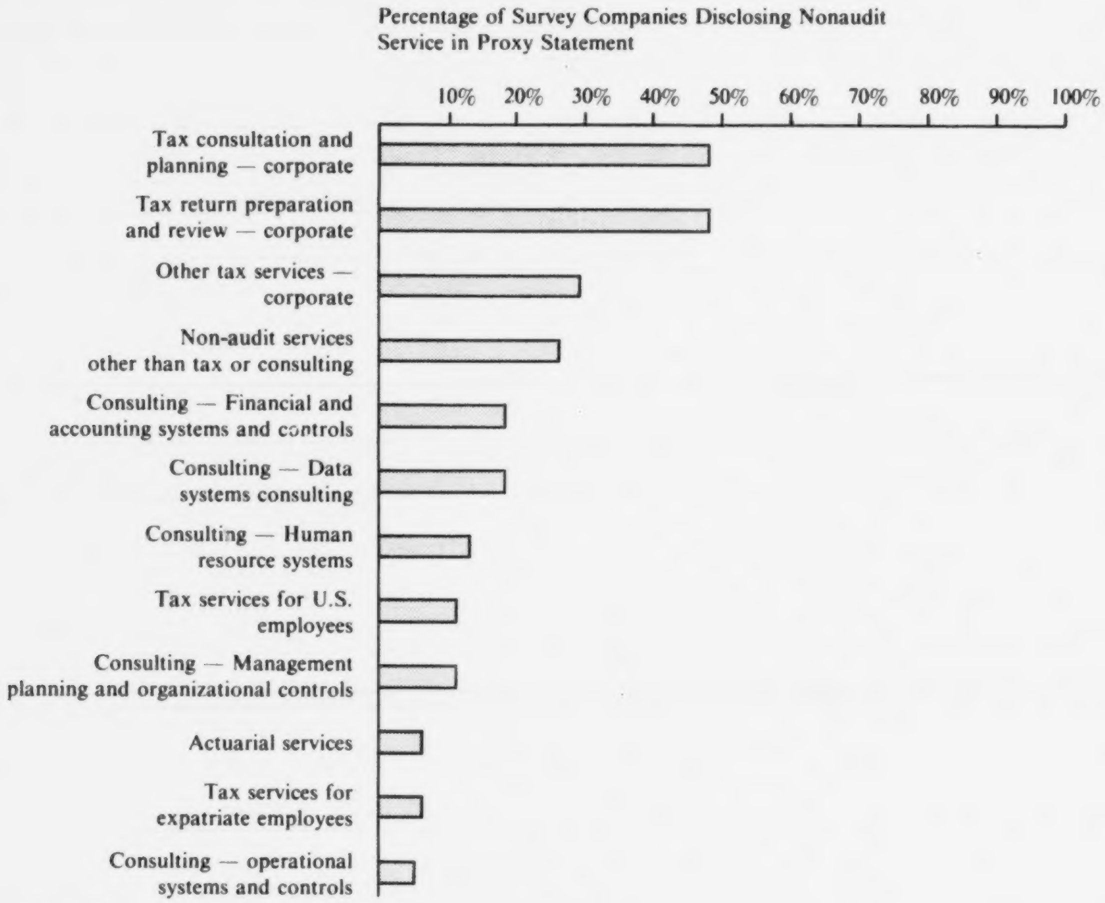
In addition, through the issuance of ASR No. 250, the following disclosures are required regarding services provided by a company's independent accountants:

> A description of each audit and nonaudit professional service by the registrant's independent accountants.
>
> The percentage relationship — both in the aggregate and individually for any service greater than 3% — that fees for nonaudit services bear to audit fees.
>
> A statement as to whether nonaudit services were approved by the audit committee or board of directors before the services were performed to consider their possible effect on audit independence.
>
> A description of the circumstances underlying any services furnished at noncustomary rates or direct or indirect understandings limiting current or future fees.

SAB No. 25 offers interpretive guidance to registrants disclosing relationships with independent accountants in proxy statements.

Proxy statements for 1979 annual shareholder meetings of 62 stock property/liability insurance companies were coded for certain disclosures required by ASR No. 250 and the results are shown in Figures G-1 through G-4.

Figure G-1. Nonaudit Services Disclosed in Proxy Statements



Based on 62 stock companies in survey:

Figure G-2. Fees for Certain Nonaudit Services

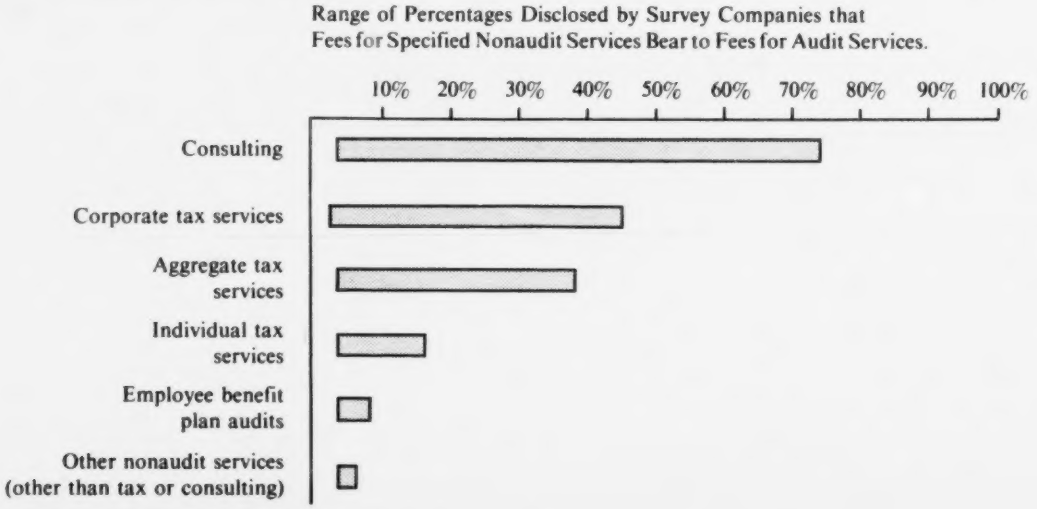


Figure G-3. Approval of Nonaudit Services

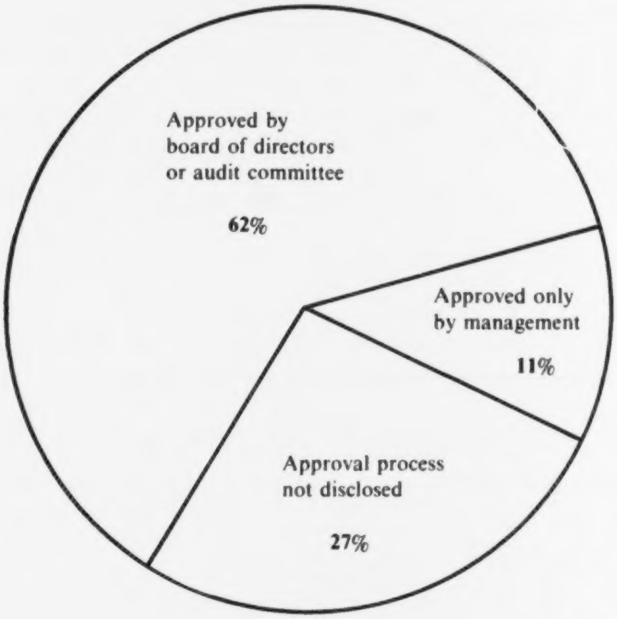
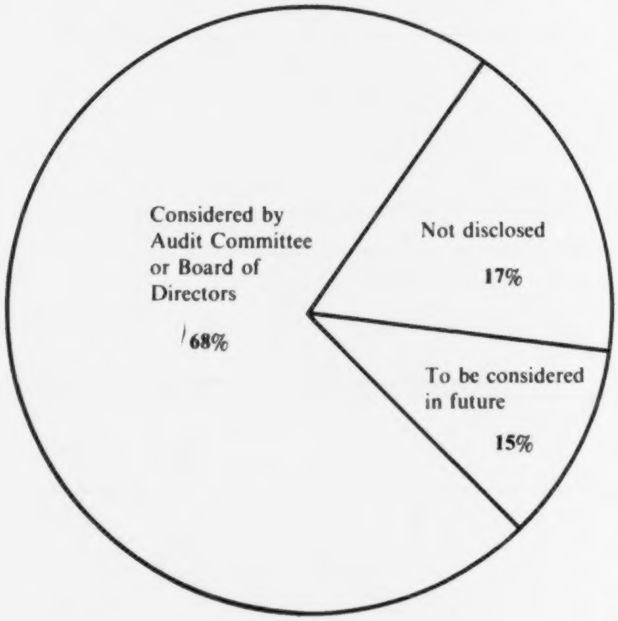


Figure G-4. Consideration of the Effect of Performance of Nonaudit Services on Independence of Auditors



EXAMPLES ASR No. 250 disclosures in proxy statements

AMERICAN EXPRESS COMPANY

The Board of Directors recommends to the shareholders their ratification of its selection of XXX, certified public accountants, to audit the accounts of the Company and its subsidiaries for the year 1979. XXX has been serving in this capacity since June, 1975. Accordingly, the following resolution will be offered at the meeting:

RESOLVED, that the appointment by the Board of Directors of XXX, certified public accountants, to audit the accounts of the Company and its subsidiaries for the year 1979 be and hereby is ratified and approved.

* * * * *

During the year ended December 31, 1978, the audit services of XXX included the examination of and reporting on the consolidated financial statements of the Company and its subsidiaries and examinations and reporting on various subsidiaries which require certified financial statements, principally due to statutory requirements.

In addition, XXX also provided a number of non-audit services for the Company, the fees for which, in the aggregate, amounted to approximately 52% of the total audit fee. The more significant of such non-audit services (and the approximate percentage relationship of the fees for these services to the total audit fee) included: tax advice and tax return preparation for expatriate employees of the Company (10%), a review of the Corporate Audit Function (3%) and participation in an international marketing review (3%).

Less significant non-audit services performed by XXX, each representing less than 3% of the total audit fee, included: evaluation of the conversion to a new chart of accounts and certain general ledger and other financial information systems in connection with the conversion; participation in a domestic marketing review; reviews in connection with certain potential acquisitions; tax advice in respect of certain individuals and proposed transactions; compensation and organizational studies and consultations; examination of the financial statements of various employee benefit plans; participation in certain internal educational programs; an executive search for a foreign subsidiary and a data collection feasibility study.

While these non-audit services were not approved in advance by the Company's Board of Directors or its Audit Committee, such services were approved by the Company's senior management under authority delegated to them by the Company's Board of Directors. The Audit Committee, on an ex post facto basis, also approved these services and considered the possible effect of these services on the independence of the accountants. In the future, the Committee will, prior to the performance by our certified public accountants of non-audit services estimated to cost $100,000 or more, approve such services. It will also approve on an ex post facto basis non-audit services initially estimated to cost less than $100,000 and will consider the possible effect of all services on the independence of the accountants.

In the event the shareholders fail to ratify the appointment, the Board of Directors will consider it a direction to select other auditors for the subsequent year. Even if the selection is ratified, the Board of Directors, in its discretion, may direct the appointment of a new independent accounting firm at any time during the year if the Board feels that such a change would be in the best interests of the Company and its shareholders.

A representative of XXX will be present at the shareholders' meeting with the opportunity to make a statement if he desires to do so and will be available to respond to appropriate questions.

CRUM AND FORSTER

The Board of Directors upon recommendation of its present Audit Committee has appointed the firm of XXX, independent certified public accountants, as independent auditors of C&F for the year 1979. One or more representatives of XXX is expected to be present at the Annual Meeting. They will have an opportunity to make a statement if they wish to do so and will be available to respond to appropriate questions which may be asked.

The consolidated financial statements of C&F and its subsidiaries for 1978 were examined by XXX. In connection with the audit function, XXX also reviewed C&F's annual report to stockholders and performed a limited review of quarterly financial information. In addition, that firm examined and reported on C&F's filings with the Securities and Exchange Commission, individual insurance company statements required by insurance regulatory authorities, and other statements relating to the annual report to stockholders.

During 1978 XXX also provided other professional services to C&F, the aggregate fees for which were 13% of the fees for audit function services. Such other services were: (i) consultation with corporate tax personnel to determine efficient tax strategies, (ii) assistance in appraising the fair value of assets of a group of companies acquired by C&F, (iii) examination and reporting on financial statements of employee benefit plans and (iv) the furnishing of executive recruiting services through October 1978. The fees for items (i), (ii) and (iv) above were each between 3% and 4% of the fees for audit function services.

The Audit Committee has approved the audit function services and has ratified each other professional service described above provided by XXX during 1978. The Committee has also determined that such non-audit professional services were performed at customary rates and terms and that their performance by such auditor did not impair its independence in connection with its audit services to C&F.

The functions of the Audit Committee now include (i) pre-approval of professional services for which C&F may retain its independent auditors, as well as the scope of the audit. (ii) determination as to whether or not the performance of non-audit professional services would be performed at customary rates and terms, and (iii) review of each non-audit professional service provided by such auditors to assure that the services provided were within the scope of the prior approval. As part of such approval process, the Committee shall consider whether the performance of each non-audit professional service impairs the independence of such auditors.

AMERICAN RE-INSURANCE COMPANY

The Company's independent certified public accountants are XXX. It is anticipated that they will continue as the Company's independent public accountants and that a representative of the firm will be present at the Annual Meeting of Stockholders. In addition to the audit of the Company, XXX performed additional professional services for the Company, the fees for which were 116.1% of their audit fee. Each additional professional service performed was reviewed by the Audit Committee which advised the Board of Directors of its conclusion that the additional professional services performed did not affect the independence of the Company's independent public accountants and the Board of Directors concurred in the conclusions of the Audit Committee.

The relationship of the fees for such non-audit services to fees for audit services is as follows:

Management Consulting Services in connection with improvements to the Company's electronic data processing system	61.6%
Management Consulting Services related to the Company's investment system	6.3%
Tax advice and assistance related to:	
Settlement of the revenue agents' report from years 1974 and 1975	15.9%
Tax planning	8.7%
Consolidated tax return initial filing	4.5%
Foreign tax returns	4.2%
Actuarial services including preparation of the actuarial report for the Company's Employees' Pension Plan	6.3%
Audit services for the Company's Employees' Pension Plan	4.4%
Other, individually not more than 3%*	4.2%

* Other includes fees for tax consultation matters relating to formation of subsidiaries, transfer of state of incorporation, refund claims on federal excise tax, stock option plan and executive search services.

HALLIBURTON COMPANY

The firm of XXX has examined the financial statements of the Company since 1946. A resolution will be presented at the meeting to ratify the appointment by the Board of Directors of the Company of that firm as independent accountants to examine the financial statements and books and records of the Company for the year ending December 31, 1979. Such appointment was made upon the recommendation of the Audit Committee of Directors all of whose names are listed under the caption "INFORMATION WITH RESPECT TO NOMINEES FOR DIRECTORS". The Company has been advised by XXX that neither the firm nor any member thereof has any direct financial interest or any material indirect interest in the Company and during the past three years, neither such firm nor any member thereof has had any connection with the Company in the capacity of promoter, underwriter, voting trustee, director, officer or employee.

A representative of such firm is expected to be present at the Annual Meeting, will have an opportunity to make a statement if he desires to do so, and such representative is expected to be available to respond to appropriate questions from stockholders, if any such questions are raised.

Audit services performed by XXX include (1) the examination of the annual financial statements, (2) assistance and consultation in connection with reports filed with the Securities and Exchange Commission and (3) consultation throughout the year with respect to various accounting matters. Also, during the fiscal year ended December 31, 1978, XXX was engaged to render certain non-audit professional services. The aggregate of the fees paid for such non-audit services was approximately 96% of the total fees paid for regular audit services. Non-audit services performed and the relationship of fees paid for such additional services to the audit fees are as follows: (1) assistance in design, development and installation of systems, standards and procedures--68%; (2) assistance with presentation of finance and accounting seminars--4%; (3) examination of financial statements of employee benefit funds--3%; (4) assistance in the review and preparation of income tax returns--6%; (5) consultation in connection with examinations by taxing authorities--10%; (6) consultation and assistance in corporate tax planning--4%; and (7) other miscellaneous services, none of which individually exceeded 3%. The Audit Committee of Directors has ratified each of such non-audit services and has determined and affirmed that the performance of these services did not and will not impair the independence of XXX in the performance of the audit. On November 15, 1978 the Audit Committee of Directors approved management engaging XXX during 1979 on specific matters other than the annual audit of the Company's books and records; provided that each specific engagement for which costs are estimated to exceed $25,000 which was not then approved at such meeting shall be approved by the Audit Committee of Directors prior to any commitment or expenditures.

If the stockholders, by the affirmative vote of a majority of the Common Stock represented at the meeting, do not ratify the selection of XXX, the selection of independent accountants will be reconsidered by the Board of Directors.

PROGRESSIVE CORPORATION

At the meeting of the Board of Directors of the Company held February 9, 1979, the Board selected XXX to serve as the independent public accountants for the Company and its subsidiaries for the year 1979. (In 1978, the Audit Committee, acting on authority of the Board of Directors, selected XXX to succeed YYY as the independent public accountant for the Company and its subsidiaries for 1978. All services provided to the Company by XXX during 1978 were audit related services.)

Representatives of XXX are expected to be present at the shareholders' meeting with the opportunity to make a statement about the Company's financial condition, if they desire to do so, and to respond to appropriate questions, if any.

Each professional service provided by, and the independence of, the independent public accountants during 1978 were subsequently considered and ratified by the Audit Committee and the Board of Directors in February 1979, at which time the Audit Committee and Board of Directors approved each professional service related to tax and audit matters to be provided by the independent public accountants for the year 1979, having determined that such services would have no effect on their independent judgment.

LINCOLN NATIONAL CORPORATION

XXX has been selected by the Board to be the independent accountants to audit the books of the Corporation for the year 1979. This firm has been employed by the Corporation in that capacity continuously since January 17, 1968.

In addition to the audit of the 1978 financial statements, the Corporation engaged XXX to perform certain other services. Fees for non-audit services approximated 10% of audit fees and consisted of: audits of employee benefit plans--6%; tax return preparation for executives--3%; and miscellaneous--1%. In computing the percentage relationship which the fees for non-audit services bear to audit fees, the following services are included with audit fees: examination of annual financial statements; interim reviews of quarterly financial statements; examination of insurance company separate accounts; third party review of trust department; review and consultation connected with filings of annual reports and registration statements with the Securities and Exchange Commission; consultation on financial accounting and reporting matters; and meetings with the Audit Committee.

The audit Committee of the Board approved all of the non-audit services provided by XXX and believes they have no effect on audit independence. This approval occurred after the performance of the services.

Representatives of XXX will be present at the annual meeting of shareholders, will be given an opportunity to make a statement if they so desire, and will be available to respond to appropriate questions relating to the 1978 audit of the Corporation's financial statements.

BENEFICIAL STANDARD CORPORATION

At the Annual Meeting, stockholders will be asked to ratify the selection by the Board of Directors of XXX as independent certified public accountants of the Company for the current year. No representative of XXX is expected to attend the Annual Meeting. If the stockholders do not ratify the selection, the Board of Directors will reconsider its selection.

The Board of Directors recommends a vote FOR this proposal. Management's proxy holders will vote all proxies received in favor of such proposal, unless otherwise instructed.

XXX provided the Company and its subsidiaries with both audit and non-audit services in 1978. The audit services included examinations of annual financial statements, reviews of interim reports to stockholders and of documents filed with the Securities and Exchange Commission, consultations with respect to financial accounting and reporting matters, and attendance of meetings of the Audit Committee of the Board of Directors.

Fees paid to XXX by the Company and its subsidiaries, including a 60.5%-owned subsidiary, in 1978 for non-audit services constituted 46.2% of fees paid for audit services. Non-audit services and the percentage of fees paid for such services relative to the total fees for audit services were: development of an automated profit plan (7.0%), development of financial planning models (7.0%), conduct of cash management studies (10.8%), research on various tax questions (5.1%), review of design and implementation of a data processing system for policy management (7.4%), analysis of an existing data processing system (7.6%) and examination of the financial statements of a pension plan (less than 3%).

The Audit Committee of the Board of Directors of the Company has determined that the rendering of non-audit services not separately considered by it, within the following limits for any fiscal year, should have no effect on the independence of the auditors; services resulting in fees of not more than $25,000 for any one service or $100,000 in the aggregate. All non-audit services rendered to the Company and its subsidiaries were either considered separately before or after they were rendered by the Audit Committee of the Company (or that of its 60.5% owned subsidiary) and determined not to affect the independence of the auditors or fell within the aforementioned limits.

REPUBLIC FINANCIAL SERVICES, INC.

XXX has examined the accounts of the Company for a number of years, including the year 1978. The Company is advised that no member of such firm has any direct financial interest or any material indirect financial interest in the Company or any of its subsidiaries.

During the year ended December 31, 1978, in addition to performing auditing services, XXX provided certain tax services for which fees and expenses amounted to approximately 13% of the total audit fees, including consultation on tax questions and tax planning approximating 9% of the total audit fees.

Each year the Audit Committee of the Board of Directors reviews and approves in advance the scope of the annual audit by the Company's independent accountants. Although the Committee is apprised of the nature and cost of the non-audit professional services provided by such accountants, neither the Audit Committee nor the Board of Directors has reviewed and approved such non-audit services in advance; however, all services and fees have been subsequently reviewed by the Committee, and the Committee believes the services rendered by XXX during 1978 were appropriate and did not affect their independence.

The Company's independent accountants are selected annually by the Board of Directors. Selection of independent accountants for 1979 has not been made at this time. It is the policy of the Board of Directors to make such selection at a board meeting which is held in the latter part of July of each year. It is expected that the selection of independent accountants to conduct the Company's 1979 audit will be made on or about July 30, 1979.

Representatives of XXX and members of the Audit Committee of the Board of Directors of the Company are expected to be present at the meeting and to be available to respond to appropriate questions or to make a statement should they desire to do so.

UNITED DIVERSIFIED CORPORATION

XXX was selected as the Company's accountants to conduct the 1978 audit. A representative of XXX is expected to be present at the annual meeting to make a statement and respond to appropriate questions. XXX performed no other professional services for the Company or its subsidiaries during 1978.

Appendix I

Company Lists

Stock companies

Following is a listing of 100 stock property/casualty insurance companies whose 1978 annual reports were included in this survey. Those companies whose names have an asterick (*) following them were also included in the survey of companies filing proxy statements in connection with the annual shareholders' meeting. The companies are listed in terms of the name under which the annual report was issued. Where applicable, the names of significant property/casualty insurance subsidiaries and affiliates are also included. Pages upon which excerpts, if any, from the company's annual report may be found are indicated. For ease of reference the word "the" has been eliminated in all cases in which it is part of the company's names.

AEtna Life and Casualty Company*, 41, 51, 55
  AEtna Casualty and Surety Company
  AEtna Casualty and Surety Company of Illinois
  Automobile Insurance Company of Hartford, Connecticut
  Standard Fire Insurance Company

Allcity Insurance Company, 26, 32

Ambassador Group, Inc.*
  Ambassador Insurance Company, Inc.

American Bankers Insurance Company of Florida, 9

American Credit Corporation, 57
  South State Insurance Company
  Southeastern Fire Insurance Company

American Express Company*, 52, 55, 62
  American Automobile Insurance Company
  American Insurance Company
  Associated Indemnity Corporation
  Fireman's Fund Insurance Company
  National Surety Corporation

American Financial Corporation, 33
  American Alliance Insurance Company
  American National Fire Insurance Company
  Great American Insurance Company
  Republic Indemnity Company of America
  Stonewall Insurance Company

American General Insurance Company*
  Fidelity and Deposit Company of Maryland
  Maryland Casualty Company

American Indemnity Financial Corporation*, 51
  American Fire and Indemnity Company
  American Indemnity Company
  Texas General Indemnity Company

American International Group, Inc.*, 22, 34
  AIU Insurance Company
  American Home Assurance Company
  Birmingham Fire Insurance Company of Pennsylvania
  Commerce and Industry Insurance Company
  Insurance Company of the State of Pennsylvania
  Landmark Insurance Company
  Lexington Insurance Company
  National Union Fire Insurance Company of Pittsburgh, Pennsylvania
  New Hampshire Insurance Company
  Transatlantic Reinsurance Company

American Re-Insurance Company*, 57, 63

American Universal Insurance Company, 9

AVEMCO Corporation*, 20
  AVEMCO Insurance Company

Baldwin & Lyons, Inc.*
  Protective Insurance Company

Baldwin-United Corporation*
  National Farmers Union Property and Casualty Company

Bellefonte Insurance Company, 12, 20

Beneficial Standard Corporation*, 64
  Transit Casualty Company

W.R. Berkley Corporation*
  Signet Reinsurance Company
  Tri-State Insurance Company of Minnesota
  Union Insurance Company
  Union Standard Insurance Company

- Berkshire Hathaway, Inc.,*, 23
  - Cornhusker Casualty Company
  - Cypress Insurance Company
  - Home and Automobile Insurance Company
  - National Fire and Marine Insurance Company
  - National Indemnity Company
- Bitco Corporation
  - Bituminous Casualty Corporation
- Capital Holding Corporation*
  - Commonwealth Fire and Casualty Insurance Company
- Carolina Casualty Insurance Company
- Celina Financial Corporation*
  - Ohio Reinsurance Corporation
- Cherokee Equity Corporation*
  - Cherokee Insurance Company
- Chubb Corporation*, 23, 53
  - Federal Insurance Company
  - Great Northern Insurance Company
  - Pacific Indemnity Company
  - Vigilant Insurance Company
- Cimarron Investment Company, Inc.*, 28
  - Cimarron Insurance Company
    - Plains Insurance Company
- Cincinnati Financial Corporation*
  - Cincinnati Insurance Company
- City Investing Company*, 13
  - City Insurance Company
  - Home Indemnity Company
  - Home Insurance Company
  - Home Insurance Company of Illinois
  - Home Insurance Company of Indiana
  - Seaboard Surety Company
- CNA Financial Corporation*, 10, 51
  - American Casualty Company of Reading, Pennsylvania
  - CNA Casualty of California
  - Columbia Casualty Company
  - Continental Casualty Company
  - National Fire Insurance Company of Hartford
  - Transcontinental Insurance Company
  - Transportation Insurance Company
  - Valley Forge Insurance Company
- Colonial Penn Group, Inc.*
  - Colonial Penn Franklin Insurance Company
  - Colonial Penn Insurance Company
- Commercial Credit Company
  - American Credit Indemnity Company of New York
  - Atlanta Insurance Company
  - Calvert Fire Insurance Corporation
  - Cavalier Insurance Corporation
  - Gulf Insurance Company
  - Insurance Company of the Pacific Coast
  - Select Insurance Company
- Connecticut General Insurance Corporation, 50
  - AEtna Insurance Company
  - AEtna Insurance Company of the Midwest
  - AEtna Reinsurance Company
- Continental Corporation*, 10
  - Boston Old Colony Insurance Company
  - Buckeye Union Insurance Company
  - Buffalo Reinsurance Company
  - Century Indemnity Company
  - Commercial Insurance Company of Newark, New Jersey
  - Continental Insurance Company
  - Continental Reinsurance Corporaton
  - Dominion Insurance Corporation
  - Fidelity and Casualty Company of New York
  - Firemen's Insurance Company of Newark, New Jersey
  - First Insurance Company of Hawaii, Ltd.
  - Glen Falls Insurance Company
  - Harbor Insurance Company
  - Kansas City Fire and Marine Insurance Company
  - National-Ben Franklin Insurance Company of Illinois
  - National-Ben Franklin Insurance Company of Michigan
  - National Reinsurance Corporation
  - Niagara Fire Insurance Company
- Continental Group, Inc.*
  - Western Employers Insurance Company
- Criterion Insurance Company*, 10
- Crum & Forster*, 11, 35, 62
  - Constitution Reinsurance Corporation
  - Industrial Indemnity Company
  - International Insurance Company
  - International Surplus Lines Insurance Company
  - North River Insurance Company
  - United States Fire Insurance Company
  - Westchester Fire Insurance Company
- CSE Corporation*, 12, 17
  - Civil Service Employees Insurance Company

- Employee Benefits Incorporated
  - Employee Benefits Insurance Company
- ERC Corporation*, 52
  - Employers Reinsurance Corporation
- Excelsior Insurance Company of New York*, 17
- Fidelity Corporation, 17, 21
  - Central National Insurance Company of Omaha
  - Insurance Company of Florida
  - Protective National Insurance Company of Omaha
- Ford Motor Credit Company
  - American Road Insurance Company
- Foremost Corporation of America, 19
  - Foremost Insurance Company, Grand Rapids, Michigan
  - Minnehoma Insurance Company
- Fremont General Corporation, 37
  - Fremont Indemnity Company
- General Electric Credit Corporation, 56
  - Puitan Insurance Company
- General Reinsurance Corporation
  - North Star Reinsurance Corporation
- Government Employees Insurance Company*, 17, 18
  - Criterion Insurance Company
- Guaranty National Corporation*
  - Guaranty National Insurance Company
- Halliburton Company*, 63
  - Highlands Insurance Company
- Hanover Insurance Companies, 22
  - California Compensation & Fire Company
  - Citizens Insurance Company of America
  - Hanover Insurance Company
- Hartford Steam Boiler Inspection and Insurance Company
- Hawkeye-Security Insurance Company
- INA Corporation*, 38, 50
  - Alaska Pacific Insurance Company
  - Bankers Standard Insurance Company
  - California Union Insurance Company
  - Horace Mann Insurance Company
  - INA Insurance Company of Illinois
  - INA Reinsurance Company
  - INA Underwriters Insurance Company
  - Insurance Company of North America
  - Pacific Employers Insurance Company
  - Public Employees Insurance Company
  - Teachers Insurance Company
- Independent Life and Accident Insurance Company*
  - Independent Fire Insurance Company
  - Thomas Jefferson Insurance Company
- Indiana Group, Inc., 22
  - Indiana Insurance Company
  - Indiana Consolidated Insurance Company
- Integon Corporation, 52
  - Integon General Insurance Corporation
  - Integon Indemnity Corporation
- Interfinancial Inc.
  - American Security Insurance Company
  - Standard Guaranty Insurance Company
- Interstate National Corporation
  - Interstate Fire & Casualty Company
  - Chicago Insurance Company
- Jefferson-Pilot Corporation*
  - Jefferson-Pilot Fire and Casualty Company
- Kemper Corporation, 22, 36, 56
  - American Motorists Insurance Company
  - Economy Fire and Casualty Company
  - Federal Kemper Insurance Company
  - Iowa Kemper Insurance Company
  - Kemper Reinsurance Company
  - National Automobile and Casualty Insurance Company
  - Sequoia Insurance Company
- Leader National Corporation*
  - Leader National Insurance Company
- Lincoln National Corporation, 57, 64
  - American Economy Insurance Company
  - American States Insurance Company
  - American Union Insurance Company of New York
  - Gulf American Fire and Casualty Company
- McM Corporation, 24
  - Occidental Fire and Casualty Company
  - Wilshire Insurance Company
- MGIC Investment Corporation*
  - American Municipal Bond Assurance Corporation
  - MGIC Indemnity Corporation
- Midwestern Fidelity Corporation*
  - Mid-American Fire and Casualty Company
  - Midwestern Indemnity Company
- Mission Insurance Group, Inc.*, 21, 24
  - Holland-America Insurance Company
  - Mission Insurance Company

Motor Club of America*, 12, 20
  Motor Club of America Insurance Company

National Security Insurance Company, 33
  National Security Fire and Casualty Company

Nationwide Corporation*
  National Casualty Company

New Jersey Manufacturers Insurance Company

NN Corporation
  Northwestern National Insurance Company
  Oregon Automobile Insurance Company
  Pacific Automobile Insurance Company
  Universal Reinsurance Corporation

Ohio Casualty Insurance Company
  American Fire and Casualty Company
  Ohio Casualty Insurance Company
  Ohio Security Insurance Company
  West American Insurance Company

Old Republic International Corporation*, 24, 52
  Old Republic Insurance Company

Peerless Insurance Company*, 17, 27, 42

Peninsular Life Insurance Company
  Peninsular Fire Insurance Company

Phoenix of London Group
  London Guarantee & Accident Company of New York
  Phoenix Assurance Company of New York

Piedmont Management Company, Inc.*, 25, 27
  Reinsurance Corporation of New York

Pinehurst Corporation*
  Presidio Insurance Company

Progressive Corporation*, 63
  Progressive Casualty Insurance Company

Reliance Group, Incorporated*, 18, 27, 39
  General Casualty Company of Illinois
  General Casualty Company of Wisconsin
  Planet Insurance Company
  Regent Insurance Company
  Reliance Insurance Company
  Reliance Insurance Company of Illinois
  United Pacific Insurance Company

Republic Financial Services, Inc.*, 11, 64
  Republic Insurance Company
  Republic-Vanguard Reinsurance Company
  Vanguard Insurance Company

Rockwood Insurance Company, 21

St. Paul Companies, Inc.*, 10, 18, 26, 27, 40
  St. Paul Fire and Marine Insurance Company
  St. Paul Insurance Company of Illinois

SAFECO Corporation*, 50
  First National Insurance Company of America
  General Insurance Company of America
  SAFECO Insurance Company of America
  SAFECO National Insurance Company

Sears, Roebuck and Co.*
  Allstate Indemnity Company
  Allstate Insurance Company
  Northbrook Property and Casualty Insurance Company

Seibels Bruce Group, Inc., 53
  Consolidated American Insurance Company
  Kentucky Insurance Company
  South Carolina Insurance Company

Silvey Companies
  Tri-State Insurance Company

Skandia Corporation
  Hudson Insurance Company
  Skandia American Reinsurance Corporation

SRI Corporation*, 10
  Selected Risks Insurance Company

Statesman Group, Inc.*, 58
  American Liberty Insurance Company
  Statesman Insurance Company

Teledyne, Inc.*
  Argonaut Insurance Company
  Argonaut-Midwest Insurance Company
  Financial Indemnity Company
  Great Central Insurance Company
  Security National Insurance Company
  Trinity Universal Insurance Company

Transamerica Corporation*, 51
  Premier Insurance Company
  Riverside Insurance Company of America
  Transamerica Insurance Company
  Wolverine Insurance Company

Travelers Corporation*, 53
  Charter Oak Fire Insurance Company
  Phoenix Insurance Company
  Travelers Indemnity Company
  Travelers Indemnity Company of Illinois
  Travelers Indemnity Company of Rhode Island

20th Century Industries*, 27
  20th Century Insurance Company

United Diversified Corporation*, 17, 19, 64
  United Fire Insurance Company

United Fire and Casualty Company

United States Fidelity and Guaranty Company*

Western Insurance Companies, 22, 52
  Western Casualty and Surety Company
  Western Fire Insurance Company

Westfield Companies
  Ohio Farmers Insurance Company
  Westfield Insurance Company
  Westfield National Insurance Company

Zenith National Insurance Corp.*, 21
  Zenith National Insurance Company

Mutual companies

Following is a listing of 40 mutual property/casualty insurance companies whose 1978 annual reports to policyholders were included in this survey. The companies are listed in terms of the name under which the annual report was issued. Where applicable, the names of significant property/casualty insurance subsidiaries and affiliates are also included. Pages upon which excerpts, if any, from the company's annual report may be found are indicated. For ease of reference the word "the" has been eliminated in all cases in which it is part of the company's name.

Allendale Mutual Insurance Company
  Affiliated FM Insurance Company
  Appalachian Insurance Company

Alliance Insurance Companies
  Farmers Alliance Mutual Insurance Company

American Family Insurance Group
  American Family Mutual Insurance Company
  American Standard Insurance Company of Wisconsin

American Hardware Mutual Insurance Company

American Mutual Insurance Companies
  American Mutual Insurance Company of Boston
  American Mutual Liability Insurance Company

American Mutual Reinsurance Company

Amica Mutual Insurance Company

Arkwright-Boston Manufacturers Mutual Insurance Company

Atlantic Companies
  Atlantic Mutual Insurance Company
  Centennial Insurance Company

Central Companies
  Central Mutual Insurance Company

Employers Insurance of Wausau, 27, 36
  Employers Mutual Liability Insurance Company of Wisconsin, 13

Employers Mutual Companies
  EMCASCO Insurance Company
  Employers Mutual Casualty Company

Farm Bureau Insurance Group
  Farm Bureau Mutual Insurance Company of Michigan

Farmland Mutual Insurance Company

Frankenmuth Mutual Insurance Company

Harleysville Mutual Insurance Company

Heritage Mutual Insurance Company

Holyoke Mutual Insurance Company in Salem, 10

Indiana Lumbermens Mutual Insurance Company

Iowa National Mutual Insurance Company, 10

Lumber Mutual Insurance Company

Merchants Insurance Group
  Merchants Mutual Insurance Company

Meridian Mutual Insurance Company

Michigan Mutual Insurance Company

Milwaukee Mutual Insurance Company

Motorists Mutual Insurance Company

Mutual Service Insurance Companies
  Mutual Service Casualty Insurance Company

Oregon Mutual Insurance Company

Philadelphia Contributionship for the Insurance of Houses from Loss by Fire, 13, 26

Philadelphia Manufacturers Mutual Insurance Company

Preferred Risk Mutual Insurance Company

Protection Mutual Insurance Company, 52

Quincy Mutual Fire Insurance Company

Sentry Insurance A Mutual Company, 18, 26, 33, 58

Shelby Mutual Group
  Shelby Mutual Insurance Company of Shelby, Ohio

State Automobile Mutual Insurance Company

Texas Employers' Insurance Association, 26

Unigard Insurance Group
  Unigard Mutual Insurance Company

USAA Group

Utica National Insurance Group
  Utica Mutual Insurance Company

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Ernst & Whinney

1979 Financial Reporting Trends

Savings and Loans

A survey of savings and loan industry reporting practices
as disclosed in published annual reports and
filings with the Securities and Exchange Commission.

E&W No. P58218

Other Ernst & Whinney Financial Reporting Trends publications:

Fire & Casualty Insurance 1979
Life Insurance 1979
Motor Carriers 1979
Banking 1979

The widely varying complexities of financial reporting practices of savings and loans made necessary the use of assumptions, conventions and interpretations to reduce the data in this survey to meaningful summaries for the reader.

The examples used do not purport to reproduce precisely what was contained in the original annual reports or filings with the SEC, and since the examples have been taken out of context, they should not be regarded as representing appropriate disclosure from the point of view of the financial statements taken as a whole. They should not be construed as recommendations for form or content of annual reports or SEC filings.

Although the survey data has been thoroughly checked, we assume no responsibility for its reliability.

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2		How each section of the survey is organized

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Foreword

The annual reports in this survey were selected from among those of the nation's publicly held savings and loan associations and holding companies. A portion of this survey is devoted to an analysis of annual reports on Form 10-K filed with the Securities and Exchange Commission.

A limited review was made of annual reports of diversified savings and loan holding companies to note the reporting procedures of these companies in regard to their savings and loan subsidiaries. This review indicates that report disclosures for the savings and loan subsidiaries ranged from summarized financial statements included in footnotes to no separate disclosure. Because the disclosures of the subsidiary savings and loan associations' financial data varied so widely, and in most cases lacked detail, summarization was not feasible. Information is included herein regarding only one such savings and loan subsidiary.

The associations and companies in the survey

The associations and companies whose reports are included in the survey include thirty-nine from those listed in the *Savings and Loan Investor* and five others which file annual reports with the Federal Home Loan Bank Board under the provisions of Section 563d.1 of Rules and Regulations for Insurance of Accounts. Because several companies have reporting year-ends other than December 31, annual reporting dates from June 30, 1978 through March 31, 1979 have been used.

As to annual report data provided in Sections A through H, six companies and associations which were included in 1978 are not included in 1979. Data for 1977 as reported herein was also included in a similar survey published as *Financial Reporting Trends—Savings and Loans 1978.*

The analysis of savings and loan holding company reporting practices as disclosed on Form 10-K filings with the Securities and Exchange Commission is based on the reports of 18 savings and loan holding companies. The sample is composed of the largest companies filing with the SEC and other holding companies judgmentally selected.

Composition of Associations and Companies in the Survey

	1978	1977
Savings and Loan Associations	18	20
One Savings and Loan Holding Companies	19	20
Multiple Savings and Loan Holding Companies	7	10
	44	50

Year-End Dates of Companies in the Survey

	1978	1977
March 31	2	2
June 30	5	8
September 30	1	1
December 31	36	39
	44	50

Aggregate Financial Data for the Companies in the Survey (in Thousands of Dollars)

	1979 Survey		1978 Survey	
	Total Survey Companies	Average Per Company	Total Survey Companies	Average Per Company
Assets	$71,317,865	$1,620,860	$64,444,226	$1,288,885
Loans receivable	61,841,970	1,405,499	56,106,678	1,122,134
Savings accounts	55,881,150	1,270,026	52,016,318	1,040,326
Stockholders' equity	4,086,244	92,869	4,183,039	83,661
Operating income	6,223,285	141,438	5,574,524	111,490
Net income	741,682	16,856	673,122	13,462

How each section of the survey is organized:

Each section typically consists of three subsections:

1. A brief narrative which summarizes the details in the tables which follow.

2. Tables which summarize prevailing practices for the subject of the section.

Tables in Sections A through H are shown in percentages; those in Section J are by the number of holding companies. Unless the number of companies covered by the percentages in Sections A through H is listed at the bottom of the percentage distribution, the number is always forty-four and fifty for 1978 and 1977, respectively.

3. Examples were selected to illustrate either representative or unusual reporting practices. For the most part they appear in the same sequence as the related tables. For simplicity, the following titles have been used in place of those actually used by the reporting entity:

Statement of financial condition

Statement of operations

Statement of stockholders' equity

Statement of changes in financial position

Notes to financial statements

Examples included are taken only from annual reports or filings with the SEC and, where applicable, the Federal Home Loan Bank Board.

References to notes to financial statements have been omitted in the examples if the omissions do not affect the example in relation to the purpose of the survey. Company names are as they appear in the annual reports.

The analysis of published annual reports was in most cases confined to the formal financial statements. In most cases, if the survey item was not disclosed in the financial statements, it is not included in the analysis even though it may have been mentioned in the body of the annual report. The few exceptions are clearly identified in the text or tables.

Tables display current and prior years' data. Where considered useful, significant variations from reporting practices of the prior year are also discussed in the explanatory narratives.

Financial Reporting Trends—Savings and Loans confines itself mainly to reporting practices unique to the industry.

Additional copies of the 1979 edition of *Financial Reporting Trends—Savings and Loans* may be obtained from the Ernst & Whinney office which serves you.

Ernst & Whinney Savings and Loans Committee
February 1980

SECTION A

General Report Characteristics and SEC Annual Report Requirements

Number of report pages

As a general rule the reports contained 20 pages or more. Approximately 77% of the reports fall into this category as compared to 82% for the prior year's survey.

Form of text material

As Table 2 indicates, substantially all of the annual reports include both the top executive's letter and a supplementary narrative. Management's discussion and analysis of the summary of operations, which is required by the Securities and Exchange Commission to be included in reports to shareholders, was surveyed as additional text.

Table 1. Number of Report Pages

	1978	1977
Reports containing:		
12-14 pages	9%	6%
15-19 pages	14	12
20-24 pages	9	18
25-29 pages	25	16
30-34 pages	18	24
35-44 pages	16	18
45 pages and more	9	6
	100%	100%

Tables 2. Form of Text Material

	1978	1977
Reports in which text was presented in:		
Letter by top executive and additional text	93%	88%
Comprehensive top executive's letter only	7	12
	100%	100%

Tabular presentations

Table 3 shows that all of the annual reports in the current survey contained statistical data in tabular form other than the formal financial statements. The data indicates an increase in the number of tables over those included in the reports surveyed in 1978. Table 4 reports the mix of subject matter by tables.

Table 3. Number of Tables in Report

	1978	1977
Reports which presented:		
One table	14%	14%
Two tables	9	12
Three tables	9	12
Four tables	11	8
Five tables	9	12
Six tables	5	4
Seven tables	7	4
Eight or more tables	36	34
	100%	100%

Table 4. Subject Matter of Tables

	1978	1977
Reports with tables relating to:		
Financial highlights	93%	96%
Statistical summaries	82	66
Quarterly price range of stock	82	56
Earnings per share	59	34
Savings accounts	39	28
Loans made	36	36
Scheduled items	36	28
Loans by type	34	38
Cost of money	34	38
Rates of return on loans	34	34
Other data	45	40

Charts and graphs

Table 5 shows the percentage of annual reports containing charts and graphs. Table 6 shows the mix of subjects covered by charts and graphs. Descriptive captions have been included in Table 6 when they appeared in more than ten percent of the reports surveyed in 1979 or 1978.

Table 5. Number of Charts and Graphs in Report

	1978	1977
Reports by number of charts and graphs presented:		
One	7%	6%
Two	11	4
Three	11	12
Four	14	8
Five or more	39	46
	82	76
None	18	24
	100%	100%

Table 6. Subject Matter and Basis of Charts and Graphs

	1978	1977
Reports with charts and graphs relating to:		
Total assets	55%	58%
Savings accounts	48	54
Loans receivable	41	66
Net income	34	42
Earnings per share	27	24
Stockholders' equity	20	20
Operating income	9	16
Interest cost—savings	7	14
Rates of return—loans	5	14
Number of reports included in this table	36	38

SEC annual report requirements

The Securities and Exchange Commission proxy rules require the following information in annual reports to shareholders:

1. A five-year summary of operations.

2. An explanation by management of period-to-period changes in the components of the summary of operations during the last three fiscal years.

3. The principal market upon which any voting securities are traded and the price range of the stock and dividends paid for each quarterly period for the past two fiscal years.

All surveyed companies which were required to meet the above disclosure requirements did so. The following illustrates the types of disclosures made.

EXAMPLES Summary of operations

GOVERNMENT SERVICES SAVINGS & LOAN, INC.

(Five Year Summary)

	1979	1978*	1977*	1976*	1975*
Income:					
Interest on loans	$ 23,206,524	$ 20,034,432	$ 18,169,217	$ 17,651,634	$ 16,381,824
Loan fees:					
Permanent loans	798,479	639,142	472,946	256,241	211,202
Construction loans	1,107,300	765,478	505,934	423,758	256,610
Loan servicing fees	378,179	262,323	138,670	42,809	12,861
Income from mortgage-backed securities	1,558,040	1,109,153	740,243	600,674	482,005
Income from marketable securities	1,176,626	1,078,883	1,320,183	934,013	520,733
Other income	190,811	166,937	158,215	138,022	106,930
Rent, net of related expenses	31,977	22,889	181,854	169,618	132,041
Total income	$ 28,447,936	$ 24,079,237	$ 21,687,262	$ 20,216,769	$ 18,104,206

	1979	1978*	1977*	1976*	1975*
Expenses:					
General and administrative	4,527,077	3,905,397	3,216,653	2,682,583	2,463,128
Dividends (interest) on savings accounts	18,059,285	15,643,317	14,760,418	14,542,634	11,831,081
Other interest	2,058,846	1,285,950	1,082,745	1,369,128	4,159,414
Provision for loan losses	(25,000)	25,000	75,000	-0-	-0-
Total expenses	$ 24,620,208	$ 20,859,664	$ 19,134,816	$ 18,594,345	$ 18,453,623
Income (loss) before income taxes	$ 3,827,728	$ 3,219,573	$ 2,552,446	$ 1,622,424	$ (349,417)
Federal and state income taxes (recoverable)	1,215,873	1,020,899	809,472	504,000	(285,967)
Net income (loss)	$ 2,611,855	$ 2,198,674	$ 1,742,974	$ 1,118,424	$ (63,450)
Net income (loss) per share**	$ 3.05	$ 2.57	$ 2.04	$ 1.31	$ (.07)
Dividends declared per share**	$ .455	$ .400	$ .152	$ .076	$ .076
Equity per share	$ 13.67	$ 11.08	$ 8.91	$ 7.03	$ 5.79
Weighted Average Number of Shares Outstanding**	856,106	856,106	856,106	854,536	848,231
Selected Balance Sheet Items:					
Total assets	$323,988,313	$298,476,705	$271,236,915	$263,411,504	$245,090,890
Net first mortgage loans	270,965,466	252,348,848	227,015,470	220,571,043	215,383,160
Marketable and mortgage-backed securities	29,859,128	27,259,511	27,758,054	27,266,191	12,102,988
Savings accounts	281,867,183	263,442,892	241,318,415	230,286,942	217,901,286
Notes payable	3,000,000	2,500,000	3,000,000	2,500,000	7,750,000
Funds due under repurchase agreements	19,077,500	14,747,500	11,465,000	17,896,889	7,990,871
Stockholders' equity	11,705,799	9,483,675	7,627,444	6,014,924	4,914,702
Loan Data:					
New loans acquired	$120,274,488	$112,880,240	$ 80,881,636	$ 40,607,839	$ 30,721,783
Loans and participations sold	38,237,494	30,374,603	33,881,651	13,365,179	9,169,963
Loans serviced for others	112,353,002	72,569,075	51,741,677	22,486,268	15,149,148
Average rate on new loans acquired	10.64%	9.11%	9.03%	9.09%	8.70%
Average rate on net mortgage loan portfolio	9.02%	8.39%	8.10%	7.98%	7.92%
Savings Data:					
Savings increase	$ 18,424,291	$ 22,124,477	$ 11,031,473	$ 12,385,656	$ 44,393,220
Passbook to total savings	47%	70%	71%	63%	49%
Average savings rate	7.26%	6.35%	6.32%	6.42%	6.75%

*Certain amounts have been reclassified to conform with classifications adopted in 1979.

**Net income (loss) per share and dividends declared per share are based on weighted average shares outstanding, retroactively adjusted for a 5% stock dividend declared September 14, 1978.

FINANCIAL FEDERATION, INC.

(Five Year Operating Summary)

For The Year ($000 omitted)	1978	1977	1976	1975	1974
Revenues:					
Interest on loans	$ 159,737	$ 140,841	$ 113,980	$ 92,603	$ 86,936
Loan fees	6,902	8,214	6,015	3,469	1,939
Income on investments	13,235	9,853	9,023	7,832	9,368
Other	6,636	5,870	4,770	3,454	3,453
Total revenues	186,510	164,778	133,788	107,358	101,696
Expenses:					
Interest on savings	120,574	108,307	92,480	76,748	69,108
Interest on borrowings	5,136	2,431	838	1,438	4,465
General and administrative	21,422	19,713	17,345	14,422	13,427
(as a percent of revenues)	11.49%	11.96%	12.96%	13.43%	13.20%
Other	(893)	389	495	443	597
Total expenses	146,239	130,840	111,158	93,051	87,597
Earnings before taxes	40,271	33,938	22,630	14,307	14,099
Provision for income taxes	14,423	12,549	8,499	4,898	4,972
Net earnings	$ 25,848	$ 21,389	$ 14,131	$ 9,409	$ 9,127
Average shares outstanding	4,142,000	4,085,000	4,037,000	4,037,000	4,037,000
Net earnings per share	$ 6.24	$ 5.24	$ 3.50	$ 2.33	$ 2.26
New loans	$ 467,763	$ 569,295	$ 445,087	$ 288,759	$ 97,885
Average yield on new loans	10.23%	9.28%	9.23%	9.23%	9.21%
Increase (decrease) in savings	$ 103,030	$ 204,522	$ 208,244	$ 181,905	$ (41,362)
Cash dividends declared	$ 4,560	$ 2,667	$ 1,918	-	-

At Year End ($000 omitted)	1978	1977	1976	1975	1974
Total assets	$2,192,815	$2,014,890	$1,735,726	$1,461,436	$1,305,556
Total loans receivable	$1,966,570	$1,791,415	$1,536,724	$1,288,910	$1,159,510
Savings deposits	$1,876,213	$1,773,183	$1,568,661	$1,316,076	$1,134,171
Real estate owned	$ 1,191	$ 2,623	$ 4,695	$ 10,252	$ 10,631
Borrowed funds	$ 119,861	$ 67,062	$ 13,713	$ 10,685	$ 45,037
Stockholders' equity	$ 171,850	$ 150,251	$ 130,669	$ 118,379	$ 108,970
Book value per share	$ 41.37	$ 36.44	$ 32.32	$ 29.33	$ 27.00
Net worth to assets ratio	7.84%	7.46%	7.53%	8.10%	8.35%
Average yield on loan portfolio	9.40%	8.83%	8.61%	8.26%	7.80%
Average rate on savings deposits	6.95%	6.48%	6.38%	6.32%	6.13%
Average cost of savings and borrowings (cost of funds)	7.17%	6.51%	6.38%	6.33%	6.25%
Margin--Loan yield less cost of savings	2.45%	2.35%	2.23%	1.94%	1.67%
Margin--Loan yield less cost of funds	2.23%	2.32%	2.23%	1.93%	1.55%
Slow loans	.13%	.19%	.24%	.28%	.25%
Foreclosed real estate	.04%	.12%	.24%	.55%	.58%
Loans to facilitate sale of real estate	.13%	.19%	.42%	.90%	1.39%
Ratio of scheduled items to assets	.30%	.50%	.90%	1.73%	2.22%
Number of loan accounts	62,095	62,309	61,357	57,339	55,264
Savings accounts	319,582	316,396	302,986	279,979	271,467
Employees	623	611	562	497	449
Shareholders	4,839	5,490	6,449	6,809	6,922
Shares outstanding	4,154,000	4,123,000	4,043,000	4,037,000	4,037,000

EQUITABLE SAVINGS & LOAN ASSOCIATION
5-YEAR SUMMARY OF CONSOLIDATED EARNINGS

	1978	1977	1976	1975	1974
INCOME:					
Interest on loans and contracts	$ 97,086,780	$ 79,621,423	$67,113,482	$60,194,120	$54,147,302
Loan and other fees	10,409,629	9,610,330	6,607,310	4,944,729	4,048,094
Securities and other investments	5,861,292	6,647,736	5,824,064	4,681,555	5,040,832
Sales of real estate	15,238,955	13,357,700	4,610,094	3,288,274	102,000
Real estate commissions	8,542,385	6,290,637	3,304,288	2,539,277	1,777,351
Insurance commissions	2,103,655	1,638,005	1,391,831	1,286,969	1,048,020
Mortgage loan servicing	2,949,203	2,160,983	1,833,732	1,731,892	1,493,736
Other income	1,314,917	2,677,642	1,918,218	1,561,227	1,403,127
	143,506,816	122,004,456	92,623,019	80,228,043	69,060,462
EXPENSES:					
General and administrative:					
Savings and loan loan operations	14,493,090	13,274,832	11,676,006	10,432,074	9,606,315
Other	19,564,419	15,429,635	9,779,170	8,034,963	6,555,873
Cost of real estate sold	10,252,281	9,585,307	3,779,080	2,744,047	67,728
Provisions for losses on loans and properties	488,573	1,111,435	881,127	784,101	935,273
Interest on savings accounts	60,334,031	52,763,965	45,786,453	38,739,748	32,645,675
Other interest	20,201,584	13,970,639	11,886,988	13,545,173	14,499,403
	125,333,978	106,135,813	83,788,824	74,280,106	64,310,267
Earnings before taxes on income	18,172,838	15,868,643	8,834,195	5,947,937	4,750,195
Federal and State taxes on income	7,333,414	6,214,024	3,136,406	2,226,176	1,752,379
Net earnings	$ 10,839,424	$ 9,654,619	$ 5,697,789	$ 3,721,761	$ 2,997,816

AMERICAN SAVINGS AND LOAN ASSOCIATION OF FLORIDA

(FIVE YEAR SUMMARY)

	1978	1977	1976	1975	1974
	Year Ended September 30,				
Interest Income	$89,989,528	$62,393,891	$40,109,385	$28,694 82	$22,975,876
Other Income	9,417,185	6,033,934	2,788,451	2,108,868	1,608,512
Interest Expense	71,681,871	51,178,737	33,057,796	24,667,839	19,667,055
Operating Expenses	14,369,600	9,998,225	7,100,915	4,360,555	3,337,875
Income Taxes	4,076,779	1,698,700	608,200	355,000	409,625
Net Income	$ 9,278,463	$ 5,552,163	$ 2,130,925	$ 1,419,556	$ 1,169,833
Earnings Per Share (pro forma for 1976)					
Primary	$ 4.22	$ 2.83	$ 1.42		
Assuming Full Dilution	$ 4.19	$ 2.80	$ 1.42		

FIRST CHARTER FINANCIAL CORPORATION
(Management's Discussion And Analysis)

Data Pertaining To The Analysis

Loan Portfolio--At Year End

	1978		1977		1976		1975		1974	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	$ in millions									
Loans on existing structures										
Single Family (1-4 units)	$6,457.1	84.9	$5,857.5	84.4	$4,740.9	83.7	$3,769.0	81.7	$3,331.6	80.5
Multiple (5 or more units)	1,030.9	13.6	969.8	14.0	840.6	14.8	764.3	16.6	705.2	17.0
Other Properties	40.7	0.5	44.2	0.7	48.1	0.9	53.3	1.1	57.0	1.4
Construction loans										
Single Family (1-4 units)	8.0	0.1	16.1	0.2	1.8	0.0	7.1	0.2	10.8	0.2
Multiple (5 or more units)	17.1	0.2	13.9	0.2	4.4	0.1	1.1	0.0	19.9	0.5
Land Loans	0.1	0.0	0.8	0.0	0.7	0.0	0.3	0.0	0.1	0.0
Sub-Total	$7,553.9	99.3	$6,902.3	99.5	$5,636.5	99.5	$4,595.1	99.6	$4,124.6	99.6
Loans on Savings Accounts	53.1	0.7	38.0	0.5	27.9	0.5	18.0	0.4	15.9	0.4
Total	$7,607.0	100.0	$6,940.3	100.0	$5,664.4	100.0	$4,613.1	100.0	$4,140.5	100.0

EXAMPLES Management's discussion of operations

FAR WEST FINANCIAL CORPORATION

(Management's Discussion and Analysis of the Summary of Operations)

The Company's earnings substantially increased in 1978 and 1977 when compared to the prior year. Gross revenues increased 30% in 1978 over 1977 and 22% in 1977 over 1976.

Interest on loans--The increases in 1978 of $7.1 million and 1977 of $5.7 million were a direct result of a significantly higher lending volume. New loan volume for 1978 amounted to $177.7 million at an average yield of 10.02% compared to $193.6 million at an average yield of 9.18% for 1977 and $107.6 million at an average yield of 9.16% for 1976. The yield on the loan portfolio was 8.80%, 8.34% and 8.08% at year-end 1978, 1977 and 1976 respectively.

Loan fees--In 1977 loan fees increased $1.2 million due to higher lending volume compared to 1976.

Income from investments--The increase of $3.2 million over the 1977 level resulted from a significantly increased investment portfolio and increased yields thereon. The 1977 advance of only $.2 million over the 1976 level was a result of a lower investment portfolio to support the Company's lending volume.

Income from real estate operations--The $5 million increase in 1978 reflected substantial sales of properties held for sale or development.

The 1977 increase of $2 million was a result of the sale of four parcels of land previously acquired through foreclosure.

Interest expense--This expense rose $6.9 million over 1977 primarily because of the increased cost of savings--7.07% at year-end 1978 compared with 6.42% at year-end 1977. Additions to savings accounts in 1978 amounted to $67.2 million. Short-term borrowings and interest expense related to the mortgage-backed bonds sold in the fourth quarter of 1977 also contributed to this increase.

In 1977 interest expense increased $4.1 million primarily due to additions to savings accounts of $70.3 million with the cost of savings increasing only 9 basis points.

General and administrative expenses--These expenses increased $2.3 million in 1978 and $1.6 million in 1977, which was comprised of higher wages and related costs, advertising, branch remodeling and other supportive expenditures.

Loss on sale of loans--During 1978, sales of $57.5 million of loans, a portion of which were deep discount loans, resulted in a charge to earnings of $2.6 million.

Income taxes--Federal and state taxes rose $.8 million in 1978 and $1.7 million in 1977 as the level of earnings increased. See Note 11 of the Notes to Consolidated Financial Statements for additional information.

FIRST CHARTER FINANCIAL CORPORATION
(Management's Discussion And Analysis)

Data Pertaining To The Analysis

Loan Originations--For The Year Ended

$ in millions	1978		1977		1976		1975		1974	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Loans on:										
Single Family (1-4 units)	$1,556.0	87.2	$1,979.7	86.4	$1,568.9	88.5	$ 999.1	89.8	$ 572.1	87.7
Multiple (5 or more units)	227.5	12.8	311.3	13.6	202.1	11.4	102.5	9.2	44.6	6.8
Other	0.3	0.0	0.7	0.0	0.9	0.1	10.8	1.0	35.7	5.5
Total	$1,783.8	100.0	$2,291.7	100.0	$1,771.9	100.0	$1,112.4	100.0	$ 652.4	100.0
Loans on:										
Existing Structures	$1,770.1	99.2	$ 2258.1	98.5	$1,762.1	99.4	$1,098.5	98.7	$ 611.2	93.7
New Construction	13.7	0.8	32.9	1.5	8.9	0.5	3.1	0.3	5.5	0.8
Other	0.0	0.0	0.7	0.0	0.9	0.1	10.8	1.0	35.7	5.5
Total	$1,783.8	100.0	$2,291.7	100.0	$1,771.9	100.0	$1,112.4	100.0	$ 652.4	100.0

Scheduled Items--At Year End

	1978			1977			1976		
	Amount	% Specified Assets	% Total Assets	Amount	% Specified Assets	% Total Assets	Amount	% Specified Assets	% Total Assets
	$ in millions								
"Slow Loans"	$ 3.2	.04	.04	$ 2.2	.03	.03	$ 2.1	.04	.03
Real Estate Owned	8.7	.12	.10	8.0	.12	.10	7.2	.14	.12
"Loans to Facilitate"	.7	.01	.01	2.3	.04	.03	2.9	.05	.05
Total	$12.6	.17	.15	$12.5	.19	.16	$12.2	.23	.20

	1975			1974		
	Amount	% Specified Assets	% Total Assets	Amount	% Specified Assets	% Total Assets
"Slow Loans"	$ 1.5	.03	.03	$ 2.1	.06	.04
Real Estate Owned	10.1	.24	.19	9.8	.26	.22
"Loans to Facilitate"	3.4	.08	.07	1.9	.05	.04
Total	$15.0	.35	.29	$13.8	.37	.30

OPERATIONS HIGHLIGHTS

GROSS REVENUES

Your Company's gross revenues for 1978 reached an all-time high, advancing 17.7% to $712,762,000 from $602,532,000 for 1977.

89% of the 1978 revenues were attributable to interest on loans of $634,251,000, up from $534,027,000 in 1977, an increase of 18.8%.

Loan origination fees were $15,861,000 or 2.2% of the Company revenues, down from $20,639,000 or 3.4% of revenues in the prior year. Loan service fees rose to $14,720,000 for 1978, from $12,956,000 for 1977, and produced the same 21.% of total revenues as 1977. Interest and dividends on United States Government Bonds and other securities totaled $44,689,000, equal to 6.3% of revenues, increasing from $32,747,000 for 1977 due to a higher yield on the investment portfolio outstanding. Real estate operations, reflecting a continuation of the program for disposition of real estate holdings, contributed a net gain for the year of $1,113,000 in comparison to a gain of $2,620,000 for 1977. Income from insurance agency commissions, other investments, and sundry items was $2,128,000, in comparison to $2,543,000 for 1977.

EXPENSES

Management is pleased to note that 1978 general and administrative expenses, as a percentage of gross revenues, were improved to 6.7% from 7.2% for 1977, representing a ratio which we believe to be a record and which is well below the average for the industry. Expenditures were held in check despite the additional costs involved in originating and servicing an increased loan portfolio, of opening six new branch offices, of maintaining longer business hours and ever-expanding customer and community services.

Reflecting the rising rate paid on a larger savings portfolio, interest costs rose to $398,250,000 versus $354,349,000 in 1977, an increase of 12.4%. The effective annual rate paid on savings accounts was 6.66% for 1978, increased from 6.56% for the prior year. Interest paid to the Federal Home Loan Bank and others increased to $98,155,000 from $55,166,000 in 1977, an increase of 77.9%, reflecting additional borrowings via mortgage-backed bonds and other sources to help supply funds to meet loan demand.

INCOME TAX PROVISIONS

Your Company's Federal income tax deduction applicable to additions to general reserves is being reduced to 40% from 60% gradually over a 10 year period begun in 1970. The amount thus deducted is tax preference income, subject to tax on the basis of a special formula applicable to such income, under provisions of the 1969 and 1976 Tax Reform Acts. As the percentage of income subject to the regular income taxes increases, there is a reduction in preference income thus lowering the amount of taxes on such income.

The net effect of these changes in rates is an increase in basic effective Federal tax rates from 29.3% for 1977 to 30.2% for 1978, for 1979 the rate will be reduced to 29.5% under the provisions of the 1978 Tax Reform Act.

The Company's Federal income taxes for 1978 were $42,132,000 compared to $37,495,000 for 1977, effective rates were 28.6% and 27.9% respectively. The difference between these effective rates and the basic effective rates derived from the Tax Reform Acts is attributable principally to the filing of consolidated returns and the tax treatment of certain gains from real estate operations.

The provision for California franchise taxes was $21,006,000 for 1978 versus $18,234,000 for 1977. The effective rates, net of Federal income tax effect, were 8.9% for 1978 and 8.6% for 1977.

The combined Federal and State effective income tax rate was 37.5% for 1978 and 36.5% for 1977.

MARKET AND DIVIDENDS

In April 1977 the Company adopted a quarterly cash dividend policy in lieu of annual stock dividends paid in prior years. Dividends were paid at 15¢ per share on June 20, 1977 and 20¢ per quarter thereafter. Another 20¢ quarterly dividend will be paid on March 20, 1979 to stockholders of record on February 15, 1979.

First Charter's common stock is traded on the New York and Pacific Stock Exchanges under the symbol FCF. The accompanying table sets forth the range of market prices (after adjustment for stock dividends) of the Company's common stock on the New York Stock Exchange for each quarter of 1977 and 1978 and the dividends paid during said periods:

Period	Low	High	Dividend
1977			
1st Quarter	$13-1/2	$17-1/8	--
2nd Quarter	15-3/8	18-3/4	15¢
3rd Quarter	17-1/8	19-3/8	20¢
4th Quarter	15-3/8	19-3/8	20¢
1978			
1st Quarter	$13-5/8	$17	20¢
2nd Quarter	15-3/8	19	20¢
3rd Quarter	15-3/4	20-5/8	20¢
4th Quarter	14-1/4	19	20¢

Resources

Consolidated resources of the Company were $8,326,293,000 at December 31, 1978, an increase of 8.6% over the 1977 year-end figure.

LENDING ACTIVITY

American Savings again in 1978 was among the major residential real estate lenders in the nation. New loans recorded totaled $1.78 billion, a volume second only to the $2.29 billion in the record year 1977. All of the new loans were made on California properties, principally on existing residential family dwellings of 1-to-4 units as indicated in the accompanying table of loan originations. The average interest rate on new loans during the year increased to 9.88% from 9.11% for 1977.

In response to the widespread public acceptance of the variable rate mortgage (VRM), we instituted a program, effective October 1, 1976, to make variable rate mortgages our primary loan offering. We are pleased with the progress of this program. Since its inception, VRMs have become an increasingly larger percentage of the loan portfolio and at December 31, 1978 totaled $2.02 billion, approximately 27% of the total loans outstanding.

Changes in rates on VRM loans outstanding are governed by an index based on the average cost of savings and borrowings of all California associations which are members of the Federal Home Loan Bank of San Francisco. In October of 1978, in response to the change in the index, interest rates on the outstanding VRMs were increased approximately 20 basis points.

Due to the strong demand throughout 1978 for conventional loans for both single family and multiple family dwellings, and our high volume of such loans processed, we have continued to be only moderately active in home improvement loans and in our secondary market program where loan sales approximated $176 million. Both programs, however, offer great potential for expanded volume. Our efforts to assist in the alleviation of housing problems in the central city areas were intensified during 1978, and American Savings and Loan executives occupied positions of leadership in organizations dedicated to this objective. Among these are the Home Loan Counseling Center of Southern California (HLCC), the Savings Association Mortgage Company of Northern California (SAMCO), and the Oakland Neighborhood Housing Service (ONHS). These organizations provide counseling and loans for the purchase or improvement of homes to low and moderate income families.

At December 31, 1978, American Savings' loan portfolio was $7,606,979,000, an increase of 9.6% over $6,940,272,000 at December 31, 1977. The portfolio consisted of 170,332 loans with an average yield of 8.90%, an increase of 32 basis points from 8.58% at the end of 1977.

SCHEDULED ITEMS

Scheduled items continued to be held at minimal levels, as indicated in the accompanying 5 year comparison, attesting to the high quality of the loan portfolio. This has been further strengthened during the year by the appreciation in values of the properties securing the loans.

SAVINGS

During 1978, 11,880 new accounts were added to the savings portfolio, bringing the accounts outstanding at year end to 930,950, representing $6,195,528,000 an increase of approximately $429 million.

Non-passbook accounts, principally fixed term accounts, excluding the new money market account commenced in June 1978, which are less likely to be withdrawn in periods of rapidly rising short term interest rates, represented 63.5% of the total savings balances.

Many large accounts in the six figure range, seeking risk-free investment and maximum earnings, continued to be attracted to American Savings. American's substantial capital and reserves position, its high rate of interest paid on certificates and the many free financial services, combined to provide an ideal investment vehicle.

Many large corporate and trust fund accounts, seeking the convenience and liquidity of a marketable certificate, were attracted to the commercial paper offered by First Charter, the proceeds of which were placed in notes of American Savings with matching maturities.

The net increase of $76 million is not included in the $429 million savings increase indicated above but is included in other borrowings in the Consolidated Statement of Financial Condition.

Our specialized tax-deferred retirement plans, (IRA/KEOGH), which have received widespread acceptance, totaled approximately $93 million at December 31, 1978 representing 19,241 accounts. Other programs with special appeal to senior Americans, including the direct deposit of Social Security checks, continue to attract savings accounts of a stable nature.

Continued progress was realized in our program for the expansion and improvement of our branch system.

SOUTHWESTERN GROUP FINANCIAL, INC.

(Management's Discussion and Analysis of Operations)

Total revenues increased $19,037,000 from 1977 to 1978 as compared with an increase of $10,965,000 from 1976 to 1977. The majority of these increases was in interest and discounts on loans, which increased $13,260,000 during 1978 and $6,197,000 during 1977. Substantial growth in the average loan portfolio coupled with an increase of 45 basis points in the effective yield on the portfolio caused the increase during 1978. For 1977 the increase primarily resulted from a larger average loan portfolio since the effective yield increased only 4 basis points.

Fees and service charges increased $2,794,000 in 1978 and $2,281,000 in 1977. Continued growth in mortgage loan originations and the related fees earned on such originations, as well as changing economic conditions which allowed the Company to earn higher fees for loan commitments made, contributed to these increases. Mortgage loans originations for 1978, 1977 and 1976 were $486,310,000, $477,571,000 and $374,453,000 respectively.

Average investments in certificates of deposits and marketable securities increased $10,212,000 in 1978 and $7,920,000 in 1977. The effective yields on such investments increased 144 basis points in 1978 whereas the yield had declined 139 basis points in 1977. These factors resulted in an increase in interest and dividends on investments of $1,702,000 in 1978 and a decrease of $242,000 in 1977.

Gain on the sales of loans show a decrease of $747,000 for 1978 as compared to an increase of $1,272,000 for 1977. These fluctuations are primarily the result of changes in the volume of loan sales from year to year. For the years 1976, 1977 and 1978, loan sales were $165,334,000, $233,408,000 and $204,864,000.

Data processing servicing fees increased $1,018,000 in 1978 to a level of $3,701,000 and increased $695,000 in 1977 to $2,683,000 as new customers continue to be added to the system. In addition, 1978 was the first full year of operation of the mortgage banking data processing package.

Real estate income increased $1,706,000 during 1978 and decreased $818,000 during 1977 due to changes in the level of sales activity in each year.

Other revenues in 1977 includes $1,020,000 gain from the sale of a wholly-owned savings and loan subsidiary.

The increase in interest on savings accounts of $6,317,000 in 1978 and of $4,109,000 in 1977 was caused primarily by larger average savings balances. Also, during 1978 the effective cost of these savings balances increased 27 basis points but held relatively constant during 1977 and 1976.

Interest on borrowed funds, which had decreased $267,000 during 1977 to $4,721,000, increased $5,260,000 to $9,981,000 during 1978. This increase was caused by a 168 basis point increase in the effective cost of these borrowings and higher average borrowings. The decrease in 1977 was attributed to a 96 basis point decrease in the effective cost of borrowings offset by about $400,000 of increased interest costs related to higher average borrowings.

Operating expenses increased $5,631,000 in 1978 and $1,848,000 in 1977. Contributing to the increase in 1978 are greater personnel and other costs associated with the change from a multiple to a unitary association and general increases in costs for goods and services. Increases in 1977 resulted from expanded data processing operations, an accelerated mortgage origination and sales program and general increases in costs for goods and services.

Changes in the provision for federal income tax are the result of changes in the level of income before federal income tax and further decreases in the special bad-debt deduction allowed savings and loan associations.

WESTERN FINANCIAL CORPORATION

(Management's Discussion and Analysis of the Summary of Operations)

A strong mortgage market and savings inflow helped the Company to record substantial gains in total assets, total income and total earnings per share in 1978 as compared with 1977.

Total income increased 18% in 1978 over 1977 and 13% in 1977 over 1976. Net earnings showed an increase from $7,358,832 in 1977 to $12,060,439 in 1978--a 64% increase. This follows a 146% increase in earnings from continuing operations of $7,116,732 in 1977, compared with $2,888,059 in 1976.

Total savings rose 10% in 1978 compared with a 12% increase in 1977. New real estate loans totaling $322 million were generated in 1978 compared with $269 million in 1977. Real estate loan interest, which continues to be the principal source of income, rose from $81.1 million in 1977 to a record $89.6 million in 1978. This increase is due both to a larger loan portfolio of $1,161,437,000 in 1978, versus $1,047,069,000 in 1977, and to a higher year-end loan portfolio yield of 8.83% in 1978, compared with 8.63% in 1977.

The largest expense item--dividend expense on savings accounts--increased from $63.7 million in 1977 to $72.7 million in 1978. This rise is attributable to both larger savings balances and an increase in the effective cost of savings which was 6.70% at year-end 1978 compared with 6.37% at year-end 1977.

Significant improvement was demonstrated in the Company's real estate development projects, including Leisure World, the retirement community near Phoenix. These projects showed a before-tax loss of $314,143 in 1978, compared with a before-tax loss of $2,243,048 in 1977.

The economic factors contributing to Arizona's outstanding 1978 performance should continue to prevail in 1979. The Company therefore anticipates a sustained loan demand for new and refinanced housing during the year. A positive mortgage market, coupled with a favorable position in the savings market, and improved performances in real estate development and other areas, place the Company in a most favorable position for continued growth and profitability.

EXAMPLES Market price and dividend disclosures

SOUTHWESTERN GROUP FINANCIAL, INC.

(Common Stock Price and Dividend History)

	Closing Prices		
1978	High	Low	Dividend Per Share
First Quarter	$ 8-3/4	$ 6-1/4	$.10
Second Quarter	14-1/2	9-1/4	.10
Third Quarter	14	11-1/2	.10
Fourth Quarter	14-5/8	9-1/2	.14
1977			
First Quarter	$ 5-1/2	$ 4-1/4	$.05
Second Quarter	5	4-3/8	.05
Third Quarter	7	5	.08
Fourth Quarter	6-7/8	5-7/8	.10

Southwestern Group Financial, Inc. traded in the Over-The-Counter market under NASDAQ symbol SWGC from August 30, 1971 until December 16, 1975. On December 17, 1975, the shares of the Company were listed on the American Stock Exchange, where they presently trade, under the symbol SGF.

Copies of the Company's Form 10-K Annual Report of the Securities and Exchange Commission are available without charge on request from E. Ashley Smith, Corporate Secretary, P.O. Box 710, Sugar Land, Texas 77478.

BUCKEYE FEDERAL SAVINGS AND LOAN ASSOCIATION

(Market Price Ranges and Dividends)

Buckeye Federal Savings and Loan Association became a stock company on September 9, 1976. Buckeye Federal stock is traded in the Over-the-Counter market. The quotations below were obtained from published sources. They represent quotations among dealers without adjustment for retail markups, markdowns or commissions. They do not represent actual transactions. The 1976, 1977 and first quarter 1978 amounts have been restated to reflect a 25% stock dividend paid on May 24, 1978.

	Low Bid	High Ask	Dividends Paid Per Share
1976 3rd Quarter (from Sept. 1, 1976)	$ 7.70	$ 8.40	--
4th Quarter	6.90	9.00	--
1977 1st Quarter	8.60	10.40	12.8¢
2nd Quarter	9.60	11.40	--
3rd Quarter	9.80	12.80	12.8¢
4th Quarter	12.00	15.20	--
1978 1st Quarter	11.80	14.40	12.8¢
2nd Quarter	10.75	13.75	6.4¢
3rd Quarter	12.75	22.75	8.0¢
4th Quarter	15.25	23.00	12.0¢

GENERAL OHIO S&L CORPORATION

(Market Prices Of Common Stock/Dividends Paid)

The high and low bid and asked prices of General Ohio Common Shares on the National Over-the-Counter Market for the period indicated:

	Bid		Asked	
1978	High	Low	High	Low
First Quarter	6-1/8	6	6-5/8	6-1/2
Second Quarter	7-3/4	6-1/8	8-1/4	6-5/8
Third Quarter	9-1/8	7-1/2	9-5/8	8
Fourth Quarter	9-1/8	7-7/8	9-5/8	8-3/8
1977				
First Quarter	7	6-3/8	7-1/2	6-7/8
Second Quarter	6-3/4	6-1/8	7-1/4	6-5/8
Third Quarter	6-1/4	6-1/8	6-3/4	6-5/8
Fourth Quarter	7-1/8	6	7-5/8	6-1/2
Years' Range				
1978	9-1/8	6	9-5/8	6-1/2
1977	7-1/8	6	7-5/8	6-1/2
1976	6-1/2	4-1/4	7	4-3/4
1975	5-1/4	3-1/8	5-3/4	3-5/8
1974	7	3	7-1/2	3-1/2

Dividends Paid Per Share

1978	1977	1976	1975	1974
$.24	$.21	$.16	$.13	$.12

PRUDENTIAL FEDERAL SAVINGS AND LOAN ASSOCIATION

Prudential's $1 par value Common Stock is traded in the over-the-counter market and is listed on NASDAQ. The stock was issued on April 15, 1976 coincident with the conversion of Prudential from a federally chartered mutual association to a federally chartered stock association.

Stock Market Prices (Bid-Ask Quotes)

	1978		1977	
	High	Low	High	Low
1st Quarter	10-10 1/2	7 7/8-8 3/8	8 3/8-8 3/4	7-7 1/2
2nd Quarter	11 3/8-11 7/8	9-9 1/2	8 1/8-8 3/8	7-7 1/2
3rd Quarter	11-11 1/2	9-9 1/2	8 3/4-9 1/4	7 7/8-8 3/8
4th Quarter	11 1/2-12	8 3/4-9 1/2	8 5/8-9	7 3/4-8 1/4

Quarterly dividends paid on each share of Common Stock

	1978	1977
1st Quarter	$.10	$.08
2nd Quarter	$.10	$.08
3rd Quarter	$.10	$.08
4th Quarter	$.10	$.08

SECTION B

Financial Statement Presentation

Financial statements presented

All the survey reports included statements of financial condition, operations, changes in stockholders' equity and changes in financial position.

Space devoted to formal financial statements

Table 7 indicates the amount of space devoted to formal financial statements in the annual reports.

Notes to financial statements

All annual reports contained notes to the financial statements which were referenced in the financial statements. Table 8 reveals that the majority of reports contained more than ten footnotes in both years.

Table 7. Space Devoted to Formal Financial Statements

	1978	1977
Space in reports devoted to formal financial statements:		
25% or less	5%	8%
26-39%	47	50
40-49%	20	18
50-59%	14	16
60-85%	14	8
	100%	100%

Table 8. Number of Notes to Financial Statements

	1978	1977
Reports containing:		
Less than eight notes	2%	2%
Eight notes	2	4
Nine notes	11	10
Ten notes	7	12
Eleven notes	16	14
Twelve notes	9	12
More than twelve notes	53	46
	100%	100%

Table 9 lists the frequency with which selected subjects are discussed in the notes to financial statements. Examples of notes to financial statements are included in this survey under the subject matters covered by the notes.

Table 9. Subject Matter of Notes to Financial Statements

Reports in which the notes to financial statements include one or more notes discussing:

	1978	1977		1978	1977
Significant accounting policies	100%	100%	Asset valuation—premises	86	94
Consolidation principles	98	96	Asset valuation—securities	82	80
Income taxes—general status	95	98	Quarterly results of operations	80	64
Pledged assets	93	98	Asset valuation—loans	77	78
Notes payable	93	98	Stock options	68	72
Deferred taxes	93	98	Earnings per share	64	68
Loan fees and discounts	93	84	Real estate held for development	57	80
Appropriated retained earnings	91	70	Retirement plans	55	66
Reconciliation of statutory and effective tax rates	89	94	Lease commitments	52	20
Reserves for losses	89	76	Real estate acquired through foreclosure	52	60

Table 9. Subject Matter of Notes to Financial Statements (continued)

	1978	1977
Commitments	48	58
Loan participation, loan sales	48	16
Intangible assets	46	52
Gain on sale of real estate	45	4
Savings maturities and/or interest rates	39	50
Accounting changes	30	4
Acquisitions	27	14
Contingent liabilities	27	30
Capitalized interest	27	8
Litigation	23	34
Other employee benefits	23	14
Commitment fees	16	2
Accrued interest on money market certificates	11	—
Retained earnings—dividends	11	18
Capital notes or debentures	11	18
Investments in unconsolidated subsidiaries	11	16
Supplemental profit and loss data	11	12
Divestiture	7	6
Related party transactions	2	6

SECTION C

Disclosures of Accounting Policies

Requirement for disclosure of accounting policies

Accounting Principles Board Opinion No. 22 entitled "Disclosure of Accounting Policies" requires that disclosure of significant accounting policies of a reporting entity accompany that entity's financial statements. The tables in this section deal with the methods of disclosure and items covered. Table 10 indicates the various methods of disclosure.

Items covered in accounting policies disclosures

Table 11 sets forth general categories covered in accounting policies disclosures and Table 12 identifies specific areas within certain of those general categories. In addition to certain limitations of the survey data already discussed, the data in these two tables must be further qualified. First, no consideration has been given to whether the general categories or specific areas are applicable to a particular reporting company. For example, many of the companies which disclosed accounting policies might not be involved in real estate held for development operations; therefore, a low percentage of disclosures relating to real estate held for development should not be construed to indicate that these operations are not being disclosed properly. Second, the items listed in the tables should not be considered all-inclusive.

Table 12 indicates a trend disseminating the accounting policies to other footnotes relating to the various matters, rather than discussing all items in the accounting policies footnote.

Table 10. Disclosures of Accounting Policies

	1978	1977
Reports with disclosures made in:		
A separate note to the financial statements	96%	96%
A separate statement in financial statements	2	2
Various notes to financial statements	2	2
	100%	100%

Table 11. General Categories Covered in Accounting Policies Disclosures

	1978	1977
Reports which disclosed separately policies related to:		
Consolidation	98%	92%
Method(s) of recognizing deferred income	93	90
Office premises and equipment	86	94
Reserves for losses	86	78
Investment securities	77	76
Income taxes	73	84
Real estate held for development	59	68
Method of recognizing interest income on loans	55	46
Real estate acquired in settlement of loans	43	74
Earnings per share	43	48
Intangibles	39	48
Reclassifications	16	26
Appropriated retained earnings	14	18
Pension plans	9	14

Table 12. Specific Areas Covered in Accounting Policies Disclosures

	1978	1977
Reports setting forth accounting policies which covered:		
Consolidation:		
Consolidation policy including treatment of intercompany accounts and transactions	89%	92%
Accounting for investments in unconsolidated subsidiaries	11	10
Income taxes:		
Accounting for deferred taxes	61	74
Accounting for investment tax credit	73	66
Method(s) of recognizing deferred income:		
Loan fees	93	90
Loan discounts	43	60
Commitment fees	27	30
Office premises and equipment:		
Depreciation method(s)	86%	60%
Carrying basis	45	94
Investment securities:		
Carrying basis	77	76
Method of premium amortization and discount accretion	7	4
Pension plans:		
Method of funding costs accrued	11	12
Method of computing pension expense	—	12

Note: Table 12 summarizes only specific areas covered from disclosures indicated in Table 10. Certain percentages for 1977 have been restated to conform with 1977 classifications and interpretations.

EXAMPLES Accounting policies

FIDELITY FINANCIAL CORPORATION
(Summary of Significant Accounting Policies)

The accounting and reporting policies of Fidelity Financial Corporation (Company) and its subsidiary, Fidelity Savings and Loan Association and Subsidiary (Fidelity) conform to generally accepted accounting principles and to general practice within the savings and loan industry and are as follows:

CONSOLIDATION: The Consolidated Financial Statements include those of the Company and its subsidiary Fidelity. All material intercompany accounts and transactions have been eliminated in consolidation.

DEFERRED FEE INCOME: Loan origination fees in excess of 2% of the loan plus $200 for construction loans and 1% of the loan plus $200 for other loans are deferred and amortized to income by the straight-line method over 10 years or until the loan is paid off or sold.

COMMITMENT FEES: Non-refundable fees received for commitments to make loans are deferred, except for the portion representing underwriting costs, and recognized as income as follows:

1. Commitments to make loans at the market rate of interest: The fee is amortized by the straight-line method over the term of the commitment.

2. Commitments to make loans up to a maximum or at a fixed interest rate: The fee is amortized to income during the commitment period by the straight-line method using a life of the combined commitment period and estimated loan life. When loans are funded at a below market interest rate, the balance of the fee is amortized over the life of the loan as a yield adjustment. When loans are funded at a market interest rate, or the commitment expires unused, the remaining balance of the fee is recognized at that time.

Prior to 1978, these fees were not amortized during the commitment period. The effect of the change is not material.

PROVISION FOR LOSSES: Provisions for losses are established by a charge to earnings when a liability can be reasonably estimated or, in the case of loans and property owned, when Fidelity's investment in such assets is greater than their estimated realizable value. When it is anticipated that real estate will be held for an extended period of time, holding costs, including a discount factor to give effect to the cost of money, are considered in providing valuation allowances. Additionally, an overall provision for possible losses on loans has been provided based on the loss experience of prior periods and current economic trends.

LOAN SALES: Additional funds are obtained by selling loans and participating interests therein. Any gains or losses on these sales are recognized at the time of sale. Fidelity generally continues to service the loans sold, paying the buyer an agreed yield which is normally less than the interest rate paid by the borrowers, the difference being retained by Fidelity as a service fee. These service fees are included in Interest on Loans in the Consolidated Statements of Operations.

INVESTMENT SECURITIES: These securities partially fulfill certain regulatory liquidity requirements and are carried at amortized cost, as it is generally management's intention to hold them to maturity thereby recovering their carrying value.

PREMISES AND EQUIPMENT: Depreciation and amortization of premises and equipment are computed on the straight-line basis over the estimated useful lives as follows:

Buildings	20 to 50 years
Leaseholds.	Term of the lease
Furniture and equipment	3 to 50 years

Maintenance and repairs are charged to expense and improvements are capitalized. The cost and accumulated depreciation relating to property and equipment retired or otherwise disposed of are eliminated from the accounts and any resultant gains and losses are credited or charged to earnings.

FEDERAL HOME LOAN BANK SYSTEM: As a member of the Federal Home Loan Bank System, Fidelity is required to invest an amount equal to the larger of 1% of its outstanding residential loans or 1/12 of its outstanding advances in capital stock of the Federal Home Loan Bank of San Francisco.

Eligible savings accounts of Fidelity are insured up to $40,000($100,000 per public agency) by the Federal Savings and Loan Insurance Corporation (FSLIC). In addition to the annual premium for this insurance, the FSLIC has required deposits to be made to a secondary insurance reserve under the control of FSLIC. This reserve is being refunded over a ten year period, starting in 1975, by cash payments and by credits against a portion of the annual insurance premium.

Dividends received by Fidelity on its FHLB capital stock and interest earned on its secondary reserve are included in Income on Investments in the Consolidated Statements of Operations.

THE EXCESS OF COST OVER VALUE ASSIGNED TO NET ASSETS OF ASSOCIATIONS ACQUIRED: In 1978, as required by the California Department of Savings and Loan, Fidelity resumed amortization of the portion of this deferred charge attributable to associations acquired in 1969 and prior, by the straight-line method using a life of 20 years from the date of acquisition. The effect of this change is not material.

The portion of the deferred charge attributable to an association acquired in 1971 is being amortized by the straight-line method over 40 years from the date of acquisition.

TAXES ON INCOME: Deferred income taxes have been provided on earnings reported for financial statement purposes but which are deferred for tax purposes. The Company takes the investment tax credit, which is not material, into income as a reduction in income taxes in the year after it is used as a tax credit.

FINANCIAL CORPORATION OF SANTA BARBARA
(Significant Accounting Policies)

Basis of Presentation--The consolidated financial statements include the accounts of Financial Corporation of Santa Barbara and its subsidiary companies, Santa Barbara Savings and Loan Association and Century Mortgage Company. The Company and its subsidiaries operate primarily in the savings and loan industry. Material intercompany accounts and transactions have been eliminated.

United States Government and Other Investments--Securities are recorded at cost with any discount or premium amortized to maturity of the security. Securities are not adjusted to market because it is generally management's intention to hold these securities to maturity.

Loans Receivable--Interest on loans is credited to income as earned and is accrued only if deemed collectible. Generally, interest is not accrued on loans delinquent three payments or more. Discounts or premiums on loans are included in loans receivable and credited or charged to income on the financing method over the term of the loan for mobile home loans and on the straight-line method over a 12-year period for purchased loans. Discount or premium on loans sold is credited or charged to income on the date of sale. Fees for originating and servicing loans, including commitment fees, inspection fees property appraisal fees and other miscellaneous fees in excess of amounts permitted to be included in current income by regulatory authorities (currently 2% plus $100 on construction loans and 1% plus $200 on other loans) are deferred and amortized to income using the straight-line method over a period of 10 years. Other loan fees and charges representing service costs for the prepayment of loans, for delinquent payments or for miscellaneous loan services are recorded as income when collected. Commitment fees are deferred until exercise or expiration of the commitment.

Properties--Properties purchased for development are carried at cost, and properties acquired through foreclosure are carried at the unpaid loan balance at the date of foreclosure, plus foreclosure and other related costs. Expenses of holding foreclosed property, including interest, depreciation and operating expenses, net of rental and option income, are charged against earnings in the current period. Similar expenses relating to property in the process of development are capitalized. The recognition of gain on the sale of property is dependent upon the transaction meeting certain criteria relating to the nature of the property sold and the terms of sale. Under certain circumstances, the gain, or a portion thereof, may be deferred until the criteria are met. Losses on disposition of properties, including expenses incurred in connection with the disposition, are charged to current earnings.

Investment Tax Credits--Investment tax credits are credited to income in the year in which they become available for income tax purposes.

Earnings Per Share--Earnings per share of common stock are based upon average outstanding shares during each year as adjusted for a 2-for-1 stock split declared by the Board of Directors on June 21, 1978, and paid August 15, 1978, to stockholders of record on July 14, 1978.

Provision for Estimated Losses on Loans and Properties--Valuation reserves for estimated losses on loans and properties are provided when any significant and permanent decline in value is deemed to have occurred. In estimating possible losses, management considers the estimated sales price, cost of refurbishment, delinquent taxes, cost of holding the property (if an extended period is anticipated) and cost of disposal.

Premises and Equipment--Premises and equipment are stated at cost less accumulated depreciation. Depreciation and amortization are computed principally on the straight-line method over the estimated useful lives of the assets as follows:

Buildings and improvements	25 to 50 years
Furniture, fixtures and equipment	3 to 15 years

Expenditures for betterments and major renewals are capitalized and ordinary maintenance and repairs are charged to operations as incurred.

Excess of Cost of Associations Acquired Over Net Assets at Date of Acquisition--The excess of cost of the association acquired in 1970 over net assets at date of acquisition ($1,316,000) is considered to have continuing value and is, therefore, not being amortized. The excess of cost of businesses acquired after 1970 over net assets at date of acquisition is being amortized over the lesser of the estimated useful life or 40 years.

EQUITABLE SAVINGS & LOAN ASSOCIATION
(Summary of Significant Accounting Policies)

(a) Basis of Consolidation
The consolidated financial statements include the accounts of Equitable Savings & Loan Association and its wholly-owned subsidiaries after eliminating all significant intercompany accounts and transactions.

(b) Savings and Loan Operations:
(1) Deferred Loan Fees and Discounts
Mortgage loan origination fees in excess of 1% of the loan amount plus $200 for nonconstruction loans and 2% of the loan amount plus $200 for construction loans are deferred and taken into income on the straight-line basis over a ten year period. For loans originated prior to December 31, 1971 the amortization period is seven years. Unearned income on discounted loans is amortized into income using the sum-of-the-year-digits methods over the loan term.

(2) Accrued interest on certificate and bonus savings deposits.
Interest becomes due and payable only upon maturity of certain types of certificate and bonus savings deposits. The amount represents 100% of the potential interest earned through the end of each year.

(c) Other Diversified Finance Operations:
(1) Warehoused Real Estate Loans Held for Sale
Mortgage loans held for sale, net of purchase loan discounts and prepaid commitments, are valued at the lower of cost or market as determined by outstanding commitments from investors or current investor yield requirements calculated on the aggregate loan basis.

The excess costs on bulk loan purchases over the price received upon sale of the loans (principally under GNMA backed securities) are deferred and amortized against servicing income using the straight-line method over the estimated life of the loans.

Construction loan fees are generally taken into income on the straight-line method over the expected disbursement period of the loan, normally less than one year.

(2) Loan Servicing
Real estate loans are serviced by Sherwood & Roberts, Inc. for investors. At December 31, 1978 and 1977, the total amount of real estate loans serviced for investors was approximately $766,600,000 and $618,700,000 respectively. These loans are not reflected in the accompanying consolidated financial statements. Loan servicing fees are credited to income when earned. Loan servicing costs are charged to expense when incurred. Escrow and custodial funds are not included in the accompanying consolidated financial statements since they represent mortgagor escrow balances held in special bank accounts for various investors. Such funds totaled approximately $11,700,000 and $10,362,000 at December 31, 1978 and 1977.

(3) Real Estate Developments
Investment in real estate held for development and sale is valued at the lower of cost or market. All development and certain holding costs are capitalized, subject to the lower of cost or market principle, until the project is completed and available for delivery.

(4) Insurance Commissions
Insurance commissions are recognized as income at the effective date of the policy. Return commissions are charged to operations when policies are terminated. Historically, early terminations have been insignificant and no provision is made for possible cancellations.

(d) Marketable Securities
Under a servicing agreement with the Federal National Mortgage Association (FNMA) there is a requirement to hold their common stock. Such stock is valued at cost except that if market value on any excess shares held, over that required by FNMA, is less than cost, such unrealized losses are recognized through retained earnings. Other equity securities held are not significant.

Other marketable securities are carried at amortized cost rather than the lower of amortized cost or market as it is management's present intention to either effect transactions resulting in insignificant or no loss or hold the securities to maturity. Gains or losses on the sale of such securities are recognized upon realization and are included in the consolidated statement of earnings.

(e) Allowance for Losses Against Loans and Real Estate Acquired in Settlement of Loans and Held for Development and Sale
Allowances for loss on specific problem loans and properties are charged to earnings when it is estimated a decline in market value has reduced the net realizable value of the underlying security to less than carrying value.

(f) Other Assets
Other assets include identifiable intangibles and the excess of cost over net assets of acquired businesses. Identifiable intangibles are amortized over their estimated useful lives and the excess of cost over net assets of acquired businesses is amortized over a period not in excess of forty years.

(g) Depreciation of Property, Equipment and Leasehold Improvements
Property and equipment is depreciated on a straight-line basis over the estimated useful lives (twenty-five to fifty years for buildings and improvements, three to ten years for equipment and three to thirty years for leasehold improvements) of the various classes of assets from their respective dates of acquisition.

(h) Deferred Income Taxes
Deferred income taxes result from timing differences in the recognition of revenue and expense for tax and financial statement purposes. Investment tax credits (which are not material) are accounted for on the "flow through" method, which recognizes the benefit in the year realized.

BASS FINANCIAL CORPORATION
(Summary of Significant Accounting Policies)

Principles of Consolidation and Business

The consolidated financial statements include the accounts and results of operations of the Company and its subsidiaries, Unity Savings Association and subsidiaries, all of which are wholly owned. Material intercompany accounts and transactions have been eliminated in consolidation.

The Company and its subsidiaries are principally engaged in providing various related services in the savings and mortgage lending industry.

United States Government and Other Investment Securities

Securities are held for both investment and trading purposes. Securities held for investment purposes are stated at cost, adjusted for amortization of premiums and accretion of discounts. Trading account securities are stated at the lower of aggregate cost or market.

Loans Receivable Purchased

Mortgage loans purchased, including GNMA modified pass-through certificates, are stated at cost with any premium or discount amortized over the estimated lives of the loans, principally using the sum of the years-digits method. The Company enters into forward purchase contracts to acquire these loans and, therefore, the cost is not necessarily reflective of the market value at the date of acquisition.

Mortgage Loans Held for Sale

Mortgage loans held for sale are carried at the lower of aggregate cost or market. Commitment fees paid or received in connection with sales are deferred and recorded as an adjustment of the sales price. Gain or loss is recognized and premium or discount is recorded at the time of sale, reflecting the difference between the contractual interest rate of the loans sold and the yield rate to the investor adjusted for a servicing fee.

Interest on Loans and Loan Fees

Interest on mortgage loans is credited to income when deemed to be earned. However, interest income is not recorded when collection is in doubt. The Association defers that portion of the mortgage loan fees which is in excess of estimated loan closing costs. The deferred amount is amortized to interest on loans over the estimated lives of the loans using the sum of the years-digits method. Commitment fees received are deferred and amortized to income over the commitment period using the straight-line method. Other loan fees are recorded as income when collected.

Real Estate Held for Sale

Properties are recorded at cost when purchased; costs of improvements after acquisition are capitalized. Operating expenses of the properties, net of rental income, are charged against earnings as incurred. Gains on sales of real estate are recognized at the time of sale provided that certain criteria are met. Valuation reserves for estimated losses are provided when any significant and permanent decline in value is deemed to have occurred.

Depreciation and Amortization of Office Properties and Equipment

Provisions for depreciation of office properties and equipment are computed using the straight-line method. The cost of leasehold improvements is amortized using the straight-line method over the term of the lease.

Investment Tax Credit

The investment tax credit is included in income as a reduction of the federal income tax provision in the year in which the related qualifying assets are placed into service.

Net Income Per Share

Net income per share is based upon the weighted average number of shares outstanding. No effect has been given to the shares optioned pursuant to the stock option plan as their inclusion would not result in significant dilution.

PRUDENTIAL FEDERAL SAVINGS AND LOAN ASSOCIATION
(Summary Of Significant Accounting Policies)

The accounting and reporting policies of Prudential Federal Savings and Loan Association (the Association) and subsidiaries conform to generally accepted accounting principles and practices applicable to the savings and loan industry and to the accounting rules prescribed by the Federal Home Loan Bank Board. The following is a summary of the more significant of such policies.

Principles of Consolidation

The consolidated financial statements include those of the Association and its wholly owned subsidiaries. All material intercompany accounts and transactions have been eliminated in consolidation.

Investments

Investments are recorded at cost which approximates market value. Gain or loss on sale of securities is based on the specific identification method.

Real Estate Owned

All real estate owned is recorded at the lower of cost or estimated net realizable value which, as to real estate acquired in settlement of loans, includes the uncollected loan balance and related foreclosure costs. Costs relating to the development and improvement of property are capitalized, whereas those relating to holding the property are charged to income. The sale of real estate is recorded at the time the asset is sold and the related profit generally is recognized as sales proceeds are collected.

Property and Equipment

Property and equipment is stated at cost. Depreciation and amortization of rental property, office buildings, and equipment are computed on a straight-line method over the estimated useful lives ranging from 20 to 50 years for buildings, 5 to 35 years for leasehold improvements and 3 to 25 years for furniture and equipment. Maintenance and repairs are expensed as incurred. Additions and major renewals and betterments are capitalized. The cost of property sold or otherwise disposed of and the related accumulated depreciation and amortization are relieved from the accounts and any gains or losses are included in income.

Retained Earnings

In connection with the insurance of savings accounts by the Federal Savings and Loan Insurance Corporation (FSLIC), the Association is required to maintain a Federal Insurance Reserve by appropriations of retained earnings which must be used only for the purpose of absorbing losses. Such appropriations are required to be made annually to maintain the accumulated amount at least equal to 5% of the savings accounts currently outstanding or the average of the current balances and the balances outstanding for one or more of the immediately preceding four years. The reserve is not related to the amounts of losses actually anticipated, and the appropriations to the reserve have not been charged against income.

Loan Fees and Discounts

Loan fees and discounts are recorded in accordance with regulatory requirements which provide that fees up to prescribed maximum amounts be included in income when the loan is originated; those in excess of the maximum are deferred and amortized into income over a ten-year period. Discounts related to loans purchased are amortized over a ten-year period. Deferred fees and discounts relating to loans sold or fully collected are recorded as income at the time of sale or collection.

Income Taxes

The Association has qualified under provisions of the Internal Revenue Code which permit it to deduct from taxable income an allowance for bad debts based on a percentage of taxable income before such deduction. The deduction percentage was 42% in 1977 and 41% in 1978 and reduces to 40% in 1979.

Appropriated and unappropriated retained earnings at December 31, 1978 and 1977 include earnings of approximately $31,000,000 and $27,500,000, respectively, representing such bad debt deductions for which no provision for Federal income taxes has been made. If the deducted amounts are used at a future time for any purpose other than to absorb such losses, tax liabilities will be incurred by the Association at the then current Federal income tax rate. It is not contemplated that the deducted amounts will be used in a manner which will create income tax liabilities. In the future, if the Association does not meet the Federal income tax requirements necessary to permit it to deduct an allowance for bad debts, the Association's effective tax rate could increase to a maximum of 46% under present law.

The deferral of income taxes arises principally from the recognition of items as income and expense for tax purposes in years different from the years in which they were included in the financial statements. Such items represent principally adjustments from accrual to cash basis accounting. See Note 3.

Leased Property

The Association leases land and buildings for certain branch offices. Beginning in 1977 certain existing leases have been accounted for as capital leases since it is estimated the related lessor will recover at least 90% of the initial investment in the leased property over the noncancelable term of the lease. The remainder of the branch office leases are classified as operating leases. See Note 10.

Retirement Plan

The Association participates in a retirement plan covering all employees who qualify as to age and lenth of service. Effective January 1, 1978 the Plan was amended from a contributory to a noncontributory plan. The unfunded past service liability at December 31, 1978 was $486,000, which is being amortized over a 25-year period. The Association funds accrued retirement costs. The Association's contributions to the retirement plan for the years ended December 31, 1978 and 1977 amounted to $282,784 and $239,419, respectively.

Interest Receivable

Interest earned but uncollected on loans and investments is accrued. An allowance for uncollectible interest is provided on conventional loans in excess of 90 days delinquent.

SECTION D
Consolidated Statements

Congenerics

For the purpose of this survey, a "congeneric" is defined as a group of two or more related corporate entities of which at least one is the prominent member of the group (alone or in combination with other savings and loan subsidiaries) in terms of revenues and total assets. The operations of a congeneric are devoted primarily to broadly related financial services.

In addition to certain limitations of the survey data discussed, the data in this section must be further qualified. First, the various tables were compiled as could be determined from information contained only in annual reports—any information not in the annual reports was not included in the survey. Second, it was generally not practicable to distinguish between significant and insignificant subsidiaries; therefore, although consolidation practices are generally affected by considerations of materiality, no recognition has been given to such considerations in this section. Third, no recognition has been given to the many regulatory requirements and restrictions which may have a significant effect on the financial statements of the companies analyzed.

Table 13. Consolidation Policies

	1978	1977
Companies presenting financial statements which were:		
Fully consolidated*	98%	90%
Partially consolidated**	2	10
	100%	100%

*Fully consolidated—similar accounts of the constituent companies combined and intercompany balances eliminated. The result presents the financial statements as if the companies were a single entity.

**Partially consolidated—some subsidiaries fully consolidated as described above; other subsidiaries included as a single line item either on the equity or cost method.

Table 14. Types of Companies Held by Parents

	1978	1977
Congenerics in which a non-savings and loan association parent company (holding companies) held:		
Real estate companies	4%	20%
Title companies	8	10
Computer service companies	4	10
Insurance companies or agencies	38	27
Other types of companies—defined	34	37
Other companies—unable to determine type from information in report	77	20
Number of congenerics included in percentage calculation	26	30

	1978	1977
Congenerics in which a savings and loan association parent company held:		
Real estate companies	22%	35%
Title companies	11	5
Computer service companies	5	10
Insurance companies or agencies	33	75
Other types of companies—defined in reports	39	95
Other companies—unable to determine type from information in report	89	15
Number of congenerics included in percentage calculation	18	20

Note: The above are companies owned primarily by one or more FSLIC-insured savings and loan associations which engage primarily in activities related to housing and services to companies engaged in providing housing as defined in Section 561.26 of Rules and Regulations for Insurance of Accounts.

EXAMPLES Fully consolidated

IMPERIAL CORPORATION OF AMERICA
(Summary of Significant Accounting Policies)

Principles of Consolidation

The accompanying financial statements consolidate the accounts of Imperial Corporation of America and its subsidiaries, all of which are wholly owned.

CANYON SURVEYS AND LOAN ASSOCIATION
(Principles of Consolidation and Accounting Policies)

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Canyon Savings and Loan Association and its wholly-owned subsidiary, Yavapai Service Corporation. Significant intercompany accounts and transactions have been eliminated. On June 30, 1978, the Association sold its wholly owned subsidiary, Yavapai Insurance Agency, Inc. The gain on the sale and the assets and operations of the subsidiary prior to the sale were not material.

EXAMPLES Partially consolidated--Specific reference to unconsolidated subsidiaries

FIRST LINCOLN FINANCIAL CORPORATION
(Summary of Accounting Policies)

Basis of Consolidation

The consolidated financial statements include the accounts of the Company, Lincoln Savings and Loan Association ("The Association") and its subsidiaries, Provident Mortgage Corporation and Coast Construction Service Corporation of California (inactive), and all other significant wholly owned subsidiaries of the Company. All material intercompany balances and transactions have been eliminated in consolidation.

The Company's investment in unconsolidated subsidiaries includes equity in undistributed earnings for Diversified Life Insurance Company which were $89,000 in 1978 and $100,000 in 1977.

FIRST TEXAS FINANCIAL CORPORATION
(Summary of Significant Accounting Policies)

The Consolidated Financial Statements include the accounts of First Texas Financial Corporation ("First Texas") and its subsidiaries which, with minor exceptions, are wholly-owned. All material intercompany balances and transactions have been eliminated in consolidation and insignificant minority interests have been included in Other Liabilities. The separate financial statements of FTS Life Insurance Company, a wholly-owned subsidiary, have been omitted because such financial statements are immaterial in relation to the consolidated financial statements. FTS Life Insurance Company's total assets, retained earnings and net earnings, adjusted for intercompany transactions, were $4,050,677, $1,911,955 and $376,420, respectively, as of or for the year ended December 31, 1978.

UNIVERSITY SAVINGS ASSOCIATION
(Summary of Significant Accounting Policies)

The consolidated financial statements include the accounts of University Savings Association (University) and its wholly-owned subsidiaries, Village Financial Services, Incorporated, Hunterwood Forest Corporation, Fairfax Venture, a wholly-owned joint venture of Village Financial Services and Hunterwood Forest Corporation; and Nine Oaks Venture, accounted for as a majority-owned joint venture of Village Financial Services, Incorporated, after elimination of all significant intercompany balances and transactions. The investment in Barker's Landing Associates, a 50%-owned joint venture, is accounted for under the equity method.

During the year ended June 30, 1978, Hunterwood Forest Corporation was dissolved and its assets, liabilities and operations assumed by University.

SECTION E

Statement of Financial Condition

Statement of financial condition title

Table 15 clearly indicates that the surveyed companies prefer the "Statement of Financial Condition" caption. This caption was used by 68% of the companies in 1978 and 74% in 1977.

Asset section title

The term "assets" was used by all companies to describe the asset section of the statement of financial condition.

Certificates of deposit

Of the reports containing investments in certificates of deposit which could be identified, Table 16 indicates a preference to disclose the amounts as a separate line item or included with federal funds.

Table 15. Statement of Financial Condition Title

	1978	1977
Reports in which the statement of financial condition was titled:		
Statement of financial conditon	68%	74%
Balance sheet	16	16
Statement of condition	16	10
	100%	100%

Table 16. Certificates of Deposit Disclosure

	1978	1977
Reports disclosing certificates of deposit in which the certificates were:		
Shown as a separate caption or with federal funds	42%	43%
Included with cash and amount disclosed	35	34
Included with cash—amount not given	15	13
Included with investments	8	10
	100%	100%
Number of reports included in this table	34	41

EXAMPLES Statement of financial condition title

AMERICAN SAVINGS AND LOAN ASSOCIATION OF FLORIDA

Statements of Consolidated Financial Condition

WESCO FINANCIAL CORPORATION

Consolidated Balance Sheets

EXAMPLES Disclosure of certificates of deposit (Taken from statement of financial condition)

HERITAGE FINANCIAL CORPORATION

	December 31	
	1978	1977
Cash and certificates of deposit	$3,447,742	$3,722,182

GUARANTEE FINANCIAL CORPORATION OF CALIFORNIA

	1978	1977
Cash, including certificates of deposit of $29,650,000 in 1978 and $18,950,000 in 1977	$32,821,000	$32,964,000

WESTERN FINANCIAL CORPORATION

	December 31 1978	1977
Certificates of deposit	$29,968,781	$11,885,623

OREGON TRAIL SAVINGS AND LOAN ASSOCIATION

	June 30 1978	1977
Cash on hand and in banks, including time deposits of $7,365,800 (none at 1977)	$7,517,862	$168,900

Investment securities

The survey results indicated investment securities were disclosed in a single caption in the statement of financial condition in approximately 77% of the reports. The remainder of the reports generally segregated United States Government and agency securities from other types of securities. One holding company did not disclose any investment securities in its report. The survey also indicated that there are several disclosures which are usually made with regard to investment securities, either in the statement of financial condition or the notes. They include:

1. Valuation method—reference to amortization of premiums, accretion of discounts and disclosure of amounts.

2. Market value—market value was considered disclosed for purposes of this survey if disclosure was made in the formal financial statements or notes thereto.

Table 17 presents the extent of disclosures made in reports.

Table 17. Investment Securities

	1978	1977
Reports in which investment securities were disclosed as being valued on the basis of:		
Cost, adjusted for amortization of premiums and accretion of discounts	84%	76%
Cost	12	22
Cost plus accrued interest	4	2
	100%	100%
Number of reports included in these tables	43	49

	1978	1977
Reports disclosing market values of investment securities in:		
Statement of financial condition	66%	76%
A note to the financial statements	27	24
Not disclosed	7	—
	100%	100%

Note: In addition to the investment securities covered in this table, 4% of the reports contained marketable equity securities which were valued at the lower of cost or market in both 1978 and 1977.

EXAMPLES Disclosure of valuation and market value

GOVERNMENT SERVICE SAVINGS & LOAN, INC.
(Consolidated Statement of Financial Position)

	March 31 1979	1978
Marketable securities at amortized costs	$11,469,003	$13,318,348

(Notes to Financial Statements)

Marketable securities consisted of the following:

	1979		1978	
	Amortized cost	Quoted market value	Amortized cost	Quoted market value
Farmers' Home Administration Notes	$ -	$ -	$ 493,156	$ 493,576
Federal Home Loan Bank Bonds	130,877	125,450	131,461	129,350
Certificates of deposit	2,000,078	2,000,394	1,000,000	996,672
Federal National Mortgage Association Bonds	100,725	94,500	101,047	97,625
Federal National Mortgage Association Conv. Deb.	331,218	303,750	328,716	270,937
Government National Mortgage Association (Part. Cert.)	30,345	24,713	55,396	50,725
Tennessee Valley Authority Bonds	44,741	38,125	44,016	39,187
U.S. Treasury Bills	1,950,468	1,940,460	1,069,955	1,068,475
U.S. Treasury Notes	6,761,766	6,634,491	9,995,816	9,976,562
Other investments	118,785	112,535	98,785	96,230
Total marketable securities	$11,469,003	$11,274,418	$13,318,348	$13,219,339

GIBRALTER FINANCIAL CORPORATION OF CALIFORNIA
(Consolidated Statement of Financial Condition)

	December 31	
	1978	1977
U.S. Government and other securities, at amortized cost Market: 1978--$91,183,000; 1977--$78,241,000	$95,554,000	$80,413,000

UNITED FINANCIAL CORPORATION OF CALIFORNIA
(Consolidated Statement of Financial Condition)

	December 31	
	1978	1977
U.S. Government and other securities at amortized cost	$121,270,000	$125,678,000

(Notes to Financial Statements)

U.S. Government and Other Securities

The investment in U.S. Government and other securities at December 31, 1978 and 1977 is as follows:

Maturities (000's ommited)	1978			1977		
	Book Value	Market Value	Book Yield	Book Value	Market Value	Book Yield
Overnight	$ 4,000	$ 4,000	10.94%	$ 21,000	$ 21,000	6.50%
0-12 Months	27,131	26,784	8.66	44,010	44,041	6.93%
13-24 Months	25,060	24,242	8.03	19,214	19,236	7.47
25-36 Months	20,761	20,005	8.24	11,060	11,060	7.55
37-48 Months	29,889	28,547	8.06	16,788	16,773	7.15
49-60 Months	14,429	13,965	8.70	13,606	13,434	7.20
Total	$121,270	$117,543	8.39%	$125,678	$125,544	7.05%

Loans and related accounts

A majority of reports indicated the companies' choice of disclosing loans in a single caption in the statement of financial condition with details shown in a footnote. Additionally, the majority of reports reflected the reserves for loan losses as deductions from the loans.

Compared to the prior year's reports, a smaller percentage of companies presented undisbursed portion of loan proceeds on the liability side of the statement of financial condition.

It should also be noted that 9% (6% in 1977) of the surveyed companies included real estate acquired in settlement of loans with loans in a single caption on the statement of financial condition.

The following examples were taken from statements of financial condition and the notes to the financial statements. Substantially all companies had loans pledged as security for Federal Home Loan Bank advances and in some cases for other borrowings. Footnote disclosures of these items were omitted from this section, as examples of this nature are included in the Borrowed Funds section of the survey.

Table 18. Loans

	1978	1977
Reports disclosing loans:		
In one caption with details in footnotes	70%	68%
One caption without details in footnotes	5	—
Two or more captions with details in footnotes	16	24
Two or more captions without details in footnotes	9	8
	100%	100%
Reports in which undisbursed portion of loan proceeds was:		
Netted against loans	55%	40%
Shown as a liability	45	56
Unable to determine	—	4
	100%	100%

	1978	1977
Reports which showed reserves for loan losses:		
Deducted from loans	66%	68%
Unable to determine	20	24
Not present	14	8
	100%	100%
Reports which disclosed deferred income as:		
Separate caption on liability side of statement of financial condition	41%	50%
Separate caption and also deducted from loans	32	20
Deducted from loans	25	26
Other or unable to determine	2	4
	100%	100%

EXAMPLES Single caption with supporting details in footnote disclosure, with reserve for loan losses deducted from loans. Undisbursed portion of loan proceeds and deferred income shown in the liability section of the statement of financial condition.

GUARANTEE FINANCIAL CORPORATION OF CALIFORNIA
(Statement of Financial Condition)

	December 31 1978	 1977
(Asset section)		
Loans receivable and Real Estate	$1,047,544,000	$834,534,000
(Liability Section)		
Undisbursed loan funds	$ 48,512,000	$ 33,652,000
Unearned income and fees on loans	1,884,000	1,269,000

(Notes to Financial Statements)

Loans and Real Estate:

Loans receivable and real estate at December 31, 1978 and 1977 are as follows:

	1978	1977
Loans receivable--deeds of trust held as collateral:		
Loans on single family residential property	$ 683,679,000	$551,379,000
Loans on residential properties with two-to-four family units	78,904,000	64,542,000
Loans on residential properties with more than four units	88,496,000	74,976,000
Loans on business properties	69,739,000	65,004,000
Loans on land	23,050,000	14,841,000
Loans for property improvements and mobile homes, less unamortized loan discounts of $1,040,000 in 1978 and $1,377,000 in 1977	79,021,000	46,165,000
	1,022,889,000	816,907,000
Loans-savings accounts pledged as collateral	9,699,000	7,344,000
Total loans	1,032,588,000	824,251,000
Real estate acquired in settlement of loans-at cost	832,000	710,000
Real estate held for investment-at cost, less accumulated depreciation of $557,000 in 1978 and $412,000 in 1977	15,258,000	10,961,000
Total real estate	16,090,000	11,671,000
	1,048,678,000	835,922,000
Less allowance for losses	1,134,000	1,388,000
Total loans and real estate	$1,047,544,000	$834,534,000

The Association has pledged certain residential property loans as collateral for advances from the Federal Home Loan Bank (Note E) and on mortgage-backed bonds (Note F).

EXAMPLE Single caption with supporting details in footnote disclosure, with reserve for loan losses and undisbursed portion of loan proceeds deducted from loans. Deferred income deducted from loans and shown in liability section.

BROADVIEW FINANCIAL CORPORATION
(Statement of Financial Condition)

Assets Section

	December 31	
	1978	1977
Loans receivable	$1,264,433,502	$1,120,509,414
Liabilities Section		
Deferred Income	4,056,966	2,859,700

(Notes to Financial Statements)

Loans Receivable:

Loans receivable, net, at December 31, 1978 and 1977, consist of the following:

	1978	1977
First mortgage loans	$ 823,479,378	$ 735,178,036
GNMA pass-throughs	240,859,136	175,912,838
Construction loans	80,832,258	72,960,011
Participations purchased	147,508,017	161,502,470
Real estate sold on land contract and other loans	9,241,446	7,246,289
	$1,301,920,235	$1,152,799,644
Less:		
Undisbursed portion of loans in process	$ 36,276,241	$ 30,743,783
Reserve for loan losses	1,210,492	1,546,447
	$ 37,486,733	$ 32,290,230
	$1,264,433,502	$1,120,509,414

EXAMPLE Sample caption disclosure (without details in footnote disclosure) with undisbursed portion of loan proceeds and reserve for loan losses deducted from loans (Taken from statement of financial condition)

IMPERIAL CORPORATION OF AMERICA

	December 31			
	1978		1977	
Assets Section				
Loans, principally secured by real estate	$5,223,780,000		$4,639,976,000	
Less: Undisbursed loan funds	170,113,000		176,893,000	
Allowance for estimated losses	6,584,000		5,468,000	
	5,047,083,000		4,457,615,000	
Add: Interest receivable	38,589,000	$5,085,672,000	30,356,000	$4,487,971,000
Liabilities Section				
Deferred income		21,304,000		18,146,000

EXAMPLE Multiple caption disclosure--with deferred income, undisbursed portion of loan proceeds and reserve for loan losses deducted from loans

EQUITABLE SAVINGS & LOAN ASSOCIATION
(Statement of Financial Condition)

	December 31 1978	1977
Assets Sections		
First mortgage loans and contracts	$1,081,447,078	$918,274,260
Finance, installment and other loans	78,597,125	63,675,119

(Note to Financial Statements)

First Mortgage Loans and Contracts

The following is a summary of first mortgage loans and real estate contracts at December 31:

	1978	1977
Real estate loans and contracts held for investment	$ 968,126,972	$849,200,580
Warehoused real estate loans held for sale	157,858,131	110,341,494
	1,125,985,103	959,542,074
Less:		
Deferred loan fees and purchase loan discounts	3,732,377	3,529,391
Allowance for losses	389,018	396,807
Undisbursed portion of loans in process	40,416,630	37,341,616
	44,538,025	41,267,814
	$1,081,447,078	$918,274,260

Finance, Installment and Other Loans

The following is a summary of finance, installment and other loans at December 31:

	1978	1977
Finance and installment loans	$72,697,372	$57,786,175
Loans on savings deposits	10,329,432	7,542,697
Mobile home loans	3,783,983	5,209,924
Other loans	4,160,969	3,301,162
	90,971,747	73,839,953
Less:		
Unearned discounts	1,114,660	1,735,693
Allowance for losses	370,553	343,440
Undisbursed portion of loans in process	10,889,409	8,085,706
	12,374,622	10,164,839
	$78,597,125	$63,675,119

EXAMPLE Multiple caption disclosure--with deferred income and reserve for loan losses deducted from loans. Undisbursed portion of loan proceeds shown in liability section of the statement of financial condition.

OREGON TRAIL SAVINGS AND LOAN ASSOCIATION
(Statement of Financial Condition)

	June 30	
	1978	1977
Assets Section		
First mortgage loans and real estate contracts (notes 2 and 4)	$143,562,002	$109,800,281
Loans secured by savings deposits	1,395,964	797,122
Home improvement and other consumer loans net of allowance for losses of $30,000 at 1978 ($20,000 at 1977)	6,547,570	2,851,013
Liabilities Section		
Loans in process	$ 4,563,662	$ 7,420,270

(Notes to Financial Statements)

First Mortgage Loans and Real Estate Contracts

The following is a summary of the first mortgage loans and real estate contracts as of June 30:

	1978	1977
Conventional first mortgage loans	$143,293,217	109,752,445
Real estate contracts	476,782	106,266
	143,769,999	109,858,711
Accrued interest receivable	63,339	47,515
Deferred loan fees and discounts	(244,285)	(95,584)
Allowance for losses	(27,051)	(10,361)
	(207,997)	(58,430)
	$143,562,002	109,800,281

Real estate held for investment, development and sale

Most of the companies surveyed disclosed real estate held for investment, development and sale. Some companies disclosed results of real estate operations separately in the statement of operations while others disclosed results of operations in a detailed footnote.

EXAMPLES Real estate held for investment, development and sale

FIDELITY FINANCIAL CORPORATION
(Statement of Financial Condition)

	December 31	
	1978	1977
Real estate owned	$8,363,000	$3,471,000

(Notes to Financial Statements)

Real Estate Owned

Real estate owned consisted of the following at December 31:

	1978	1977
Acquired in settlement of loans, at cost	$ 8,600,000	$2,354,000
Acquired for investment, at cost	1,853,000	2,556,000
	10,453,000	4,910,000
Less allowance for loss (note 4)	2,090,000	1,439,000
	$ 8,363,000	$3,471,000

The 1978 increase in real estate acquired in settlement of loans was caused by the conveyance to the lenders, in lieu of foreclosure, of a condominium project in which Fidelity has a participating interest.

Net gain or loss from real estate operations is summarized as follows:

	Year Ended December 31	
	1978	1977
Foreclosed real estate:		
Net gain on sales	$ 51,000	$ 479,000
Cost of funds and holding expense charged to allowance for loss	37,000	14,000
Expenses, net of rental income	(196,000)	(120,000)
	(108,000)	373,000
Properties held for investment:		
Net gain on sales	68,000	573,000
Cost of funds and holding expense charged to allowance for loss	57,000	110,000
Expenses, net of rental income	(33,000)	(293,000)
	92,000	390,000
Net gain (loss)	$ (16,000)	$ 763,000

FIRST TEXAS FINANCIAL CORPORATION
(Statement of Financial Condition)

	December 31 1978	 1977
Investment in real estate, partially pledged--net of provisions for losses ($835,364 in 1978 and $1,566,010 in 1977)	$25,972,059	$29,641,964

(Notes to Financial Statements)

Investment Real Estate--Investment Real Estate is as follows:

	December 31, 1978	 1977
Wholly-owned, Partially Pledged (Note 7)	$13,487,013	$13,073,013
Joint Ventures	13,320,410*	18,134,961*
Total	26,807,423	31,207,974
Less Provisions for Losses	(835,364)	(1,566,010)
Total Investment Real Estate	$25,972,059	$29,641,964

*Includes aggregate undistributed earnings of approximately $3,148,000 in 1978 and $1,822,000 in 1977.

The joint ventures activities consist mainly of land development and sale. As of December 31, 1978, certain subsidiaries of First Texas were contingently liable on loans from unrelated parties aggregating $1,389,680, secured by land, obtained by joint ventures in which the First Texas subsidiaries are participants. As discussed in Note 1, First Texas subsidiaries involved in extended real estate projects, capitalize interest on their total investment in real estate at the rate of their individual average cost of money. For 1978 and 1977, the effect of this policy is as follows:

	1978	1977
Total Interest Capitalized During the Year	$ 105,171	$ 146,859
Effect on Earnings of Interest Capitalized, Net of the Amortization of Prior Year's Interest Applicable to Sales and Federal Income Taxes	(164,779)	(23,488)
Earnings (Loss) Per Share Effect	(.10)	(.02)
Total Capitalized Interest Included in Investment Real Estate at Year-end	1,550,758	1,786,157

At December 31, 1978, interest was being capitalized only on the undeveloped portion of one joint venture project. Interest is no longer being capitalized on other projects as a result of the completion of their development or because conclusions drawn from appraisals, market analyses and current marketing plans indicate their investment approximates their estimated net realizable value.

During 1975 one of First Texas subsidiaries assumed full ownership of a joint venture engaged in the development of town homes. Provisions for losses totaling $2,332,500 were established on this project during 1977 and prior years. The net investment in this project was approximately $944,000 at December 31, 1978, and the present provision for loss is considered adequate. However, the assumptions underlying the current projections will continue to be reviewed for substantive changes.

Investment Real Estate Income--Net is as follows:

	1978	1977
Sales	$4,513,299	$3,789,560
Costs:		
Investment Basis	3,431,452	3,177,776
Other	471,297	439,419
Total Costs	3,902,749	3,617,195
Profit--Wholly-owned	610,550	172,365
Joint Ventures--Profit	2,199,087	1,271,216
Joint Ventures--Interest on Capital Contributions	854,599	1,152,892
Investment Real Estate Income--Net	$3,664,236	$2,596,473

GREAT WESTERN FINANCIAL CORPORATION
(Statement of Financial Condition)

	December 31 1978	 1977
Real estate held for sale of development, less accumulated provision for estimated losses	$10,210,000	$47,225,000

(Notes to Financial Statements)

Real Estate

A summary of real estate held for sale or development follows:

	December 31 1978	 1977
Real estate development projects, including joint ventures with builders, less accumulated depreciation of $1,935,000 in 1977	$ 4,247,000	$29,834,000
Other improved real estate acquired and held for sale, less accumulated depreciation of $687,000 and $318,000	4,268,000	3,449,000
Land held for sale	4,321,000	23,523,000
	12,836,000	56,806,000
Less accumulated provision for estimated losses	2,626,000	9,581,000
	$10,210,000	$47,225,000

Real estate held for sale or development includes real estate acquired through foreclosure which totaled $1,049,000 at December 31, 1978 and $18,915,000 at December 31, 1977.

Income from real estate operations is summarized below:

	Year Ended December 31	
	1978	1977
Gain recognized on sale of development projects and other real estate	$7,485,000	$3,289,000
Interest recognized on advances to joint ventures on property sold	1,527,000	1,927,000
Expenses relating to holding real estate, net of rental and option income	(207,000)	(575,000)
	$8,805,000	$4,641,000

Deferred interest and gains on property development projects totaled $3,250,000 at December 31, 1978 and $1,928,000 at December 31, 1977.

UNIVERSITY SAVINGS ASSOCIATION
(Statement of Financial Condition)

	(In thousands) June 30	
	1978	1977
Investments in real estate and real estate interest at lower of capitalized cost or market, less allowance for losses of $335,000 in 1978 and $210,000 in 1977	17,706	11,520

(Notes to Financial Statements)

Investments in Real Estate and Real Estate Interests

A summary of investments in real estate and real estate interests is as follows:

	Capitalized Cost		Other borrowed money (secured by real estate)	
	1978	1977	1978	1977
Condominiums and townhouses (a)	$ 6,098,610	4,706,323	--	1,465,418
Residential building lots (a)(b)	8,575,292	4,504,120	2,342,823	1,893,909
Land purchased for development or sale	3,366,940	2,519,973	425,634	475,634
	18,040,842	11,730,416		
Less allowance for losses	335,000	210,000		
	$17,705,842	11,520,416	2,768,457	3,834,961

(a) Estimated aggregate remaining costs to complete projects underway at June 30, 1978 and 1977 were $3,600,000 and $4,200,000, respectively.

(b) Includes equity in and advances to an unconsolidated joint venture (see note 1).

In order to properly match costs and income, interest and taxes applicable to land held for investment and development by University and its subsidiaries are capitalized. The capitalized interest relates to specific borrowings from unrelated parties (see note 5). The effect of net earnings, after Federal income taxes, of capitalizing interest and taxes for the years ended June 30, 1978 and 1977 was to increase net earnings approximately $115,000 and $120,900, respectively.

WESTERN FINANCIAL CORPORATION
(Statement of Financial Condition)

	December 31	
	1978	1977
Property held for development or investment	$24,788,627	$24,467,772

(Notes to Financial Statements)

Properties held for development or investment

Investments in properties held for development or investment include the following:

	December 31	
	1978	1977
Leisure World:		
Land	$ 7,023,306	$ 6,307,187
Project development costs	854,935	2,930,193
Community facilities	3,805,118	3,779,540
Residential models (less accumulated depreciation)	940,224	1,046,863
Maintenance costs in excess of payments by owners	882,984	1,082,984
Total project costs	13,506,567	15,146,767
Other development projects and property acquired for investment--net	11,282,060	9,321,005
Total	$24,788,627	$24,467,772

The combined results of operations of the properties are as follows:

	Year ended December 31	
	1978	1977
Sales and other income	$18,629,952	$20,298,140
Costs and other expenses		
Cost of sales	15,299,049	17,728,201
Selling, general and administrative	3,632,985	4,669,587
Interest accrued	(17,462)	512,204
Interest capitalized	29,523	(368,804)
Total costs and other expenses	18,944,095	22,541,188
Loss before income taxes	$ 314,143	$ 2,243,048

The Association's Leisure World project (Project) is a community development near Phoenix planned for approximately 7,000 residential units and related commercial facilities. As of December 31, 1978, a total of 935 residential units have been sold in the Project (including 261 in 1978 and 214 in 1977).

Under terms of agreements entered into with a developer in 1977 and 1978, the Association reduced its involvement to the extent that it no longer constructs the residential units but continues to purchase land and provide offsite improvements. Improved lots are sold to the developer for a price which, based on management's estimates, will result in the full recovery of Project costs incurred and to be incurred.

Pursuant to the above agreements, a total of 536 improved lots have been sold to the developer under deeds of trust. Gains deferred on such sales were $1,246,923 and $933,960 at December 31, 1978 and 1977, respectively. Such deferred gains are recognized in income as the deeds of trust are collected upon the escrow closings of the units.

Costs of the Leisure World project include capitalized interest as follows: 1978, $2,079,000 (see Note 1c); 1977, $2,146,000. The amount capitalized is computed monthly by applying the weighted average interest rate on funds borrowed against investments in undeveloped property. The effects on net income of capitalizing such interest were (decreases) increases of approximately $(47,000) for 1978 and $250,000 for 1977.

At the time of purchase, each home buyer in the Leisure World project contributes $1,000 ($1,500 in 1977) to a home owners' association trust fund to be used for acquisition of the community facilities.

The Association has options to purchase additional development project land. The expiration year and payments necessary are as follows: 1979, $415,000; 1980, $302,200; 1981, $300,000; 1982, $399,375; 1983, $400,000; and 1984, $359,820. Deposits forfeitable upon expiration of options totaled $472,000 at December 31, 1978.

Office premises and equipment and related depreciation

Table 19 indicates that all reports disclosed the existence of office premises and equipment in the financial statements, and almost all of the reports of surveyed companies made disclosure of the amounts of accumulated depreciation. The table also shows the percent of reports which disclosed the methods of depreciation, the amounts, and where the amounts were shown in the financial statements.

Table 19. Office Premises and Equipment and Related Depreciation

	1978	1977
Reports in which office premises and equipment was disclosed in the statement of condition in:		
A single caption—details of elements in notes to financial statements	75%	58%
A single caption—no other description	23	36
A listing of components	2	6
	100%	100%
Reports in which accumulated depreciation was disclosed in:		
Notes to financial statements using a single caption with amounts as of date of each statement presented	75%	72%
The statement of financial condition	23	22
Detail by property type in footnotes	—	2
	98	96
No disclosure made	2	4
	100%	100%

	1978	1977
Reports in which the methods of depreciation were:		
Disclosed	86%	96%
Not disclosed	14	4
	100%	100%
Reports which disclosed the provision for depreciation in the:		
Funds statement only*	91%	90%
Notes to financial statements only	2	—
Notes and the funds statement	5	4
Other	2	2
	100	96
No disclosure made	—	4
	100%	100%

*25% of reports included depreciation and amortization

EXAMPLES Office premises and equipment and related depreciation

HAWTHORNE FINANCIAL CORPORATION
(Statement of Financial Condition)

	December 31 1978	1977
Office property and equipment--at cost, less accumulated depreciation and amortization	$2,497,880	$2,202,066

(Summary of Significant Accounting Policies)

Property and equipment

Property and equipment are carried at cost. Major renewals or betterments are capitalized and written off over their estimated service lives. Repairs and maintenance are charged to appropriate expense accounts in the year incurred.

Depreciation is provided principally on the straight-line basis over the estimated useful lives of the assets as follows:

	Estimated service life
Office buildings	33-1/3 years
Furniture and fixtures	3-10 years
Automobiles	4 years
Leasehold improvements	Life of lease

Cost and accumulated depreciation applicable to assets retired or otherwise disposed of are eliminated from the accounts and any resultant gain or loss is credited or charged to operations in the year of retirement or disposition.

(Notes to Financial Statements)

Office property and equipment

Office property and equipment, stated in cost, consists of the following:

	December 31 1978	1977
Office buildings	$1,498,153	$ 975,868
Leasehold improvements	269,791	239,028
Furniture and equipment	685,575	601,937
Association branch construction in progress	8,458	247,488
	2,461,977	2,064,321
Less accumulated depreciation and amortization	656,359	554,517
	1,805,618	1,509,804
Land	692,262	692,262
	$2,497,880	$2,202,066

GENERAL OHIO S&L CORPORATION
(Statement Of Financial Condition)

	December 31 1978	 1977
Office properties and equipment, at cost, net of accumulated depreciation ($2,850,000-1978; $2,247,000-1977)	$11,227,000	9,880,000

(Statement of Accounting Policies)

Office Properties and Equipment: Office properties and equipment are carried at cost and include expenditures for new facilities and those which increase the useful lives of existing properties. Maintenance, repairs, and minor renewals are charged to expense as incurred. When properties are retired or otherwise disposed of, the related cost and accumulated depreciation and amortization are removed from the respective accounts and any gain or loss on disposition is credited or charged to earnings.

Depreciation and amortization charges are computed by the straight-line method over the following estimated useful lives:

Buildings and improvements	25 to 50 years
Furniture, fixtures and equipment	4 to 10 years
Leasehold improvements	No longer than term of lease

Expenditures for rentals of office properties and equipment amounted to less than 1% of revenues in 1978 and 1977. Obligations under leases, which are principally operating leases, are not material.

Accrued income receivable

The survey indicated that the practice of disclosing accrued income receivable separately in the statement of financial condition was clearly preferred.

Table 20. Accrued Income Receivable

	1978	1977
Reports in which accrued income receivable was:		
Disclosed in the statement of financial condition	77%	80%
Disclosed in notes to financial statements	14	6
	91	86
Not disclosed separately	9	14
	100%	100%

EXAMPLES Accrued income receivable (Taken from statement of financial condition)

PROGRESSIVE SAVINGS AND LOAN ASSOCIATION

	December 31 1978	 1977
Accrued interest receivable	$1,553,579	$ 790,687

FAR WEST FINANCIAL CORPORATION

	December 31 1978	 1977
Interest receivable	$4,671,291	$1,938,877

HAWTHORNE FINANCIAL CORPORATION

	December 31 1978	 1977
Accrued interest and other assets	$1,506,497	$1,107,572

PRUDENTIAL FEDERAL SAVINGS AND LOAN ASSOCIATION

	December 31 1978	 1977
Accrued interest receivable (less allowed for uncollectible interest (1978, $34,772, 1977 $64,970)	$4,353,204	$4,183,515

Goodwill

The surveyed companies having goodwill resulting from the acquisition of subsidiaries showed a clear preference to disclose the amount in a separate caption in the statement of financial condition. Amortization of goodwill was not as prevalent; however, disclosure of the method of amortization or reason for not amortizing was usually discussed. Typically, in cases where goodwill was not being amortized, it was clear that the related acquisition was made prior to the effective date of Accounting Principles Board Opinion No. 17.

Table 21. Goodwill

	1978	1977
Reports in which goodwill was:		
Present	50%	50%
Not apparent	50	50
	100%	100%
Number of reports included in the following tables	22	25
Reports having goodwill:		
Shown separately	91%	92%
Included in some other asset category	9	8
	100%	100%

	1978	1977
Reports in which goodwill was:		
Amortized	40%	46%
Not amortized	15	13
Both amortized and not amortized	45	41
	100%	100%
Reports in which method of amortizing goodwill was:		
Disclosed in footnotes	77%	80%
Not disclosed	23	20
	100%	100%

EXAMPLES Goodwill discussed only in note to financial statements and not disclosed separately in statement of financial condition

WESCO FINANCIAL CORPORATION

At December 31, 1978, the Company has a 21.6% investment in the common stock of Detroit International Bridge Company. The excess of cost over equity in net assets of $3,104,000 is being amortized over the period expected to be benefited which is 40 years.

EXAMPLES Goodwill shown separately in statement of financial condition

BROADVIEW FINANCIAL CORPORATION
(Statement Of Financial Condition)

	December 31	
	1978	1977
Cost in excess of fair value of net assets of original company	$8,272,000	$8,653,000

(Summary Of Accounting Policies)

Cost in Excess of Fair Value of Net Assets of Acquired Company--The excess of cost over fair value of net assets of acquired company arises from a business combination which has been accounted for under the purchase method. This excess cost is being amortized against income over a period of twenty-five years by use of the straight-line method. Discount or premium arising from fair value adjustments of assets and liabilities is being amortized to income over the estimated remaining life of the related asset or liability.

GIBRALTER FINANCIAL CORPORATION OF CALIFORNIA
(Statement Of Financial Condition)

	December 31	
	1978	1977
Excess of cost over net assets of purchased businesses	$13,154,000	$13,235,000

(Notes To Financial Statements)

Excess of Cost Over Net Assets of Purchased Businesses

The excess ($10,119,000) of amounts paid for businesses purchased in 1969 over net assets acquired is not amortized as it represents an asset of continuing value.

The remaining amount (initially $3,252,000) resulted from a 1976 purchase and is being amortized on a straight-line basis over 40 years in accordance with Accounting Principles Board Opinion 17.

Other assets

The other assets section of the statement of financial condition of the surveyed reports generally consisted of a grouping of accounts that in themselves were usually too insignificant to warrant separate disclosure. The caption used most often was "Prepaid Expenses and Other Assets" although the caption "Other Assets" was also used.

Liabilities and stockholders' equity section title

Table 22 shows the most prevalent practice was that of having a separate major caption for liabilities and stockholders' equity.

Savings

A vast majority of the companies used one caption to disclose the amount of savings deposits on the statement of financial condition. However, an increasing number of reports reflect the totals of passbook and certificate accounts in the footnotes. Further, these companies made rate disclosures and gave certain maturity information on certificate accounts as well. The percentage of reports presenting rate and maturity disclosure in the footnotes increased from 52% to 55%. Many of the other companies presented this data in other sections of their reports, apart from the financial statements and related footnotes.

Table 22. Liabilities and Stockholders' Equity Section Title

	1978	1977
Reports in which the liabilities and stockholders' equity section was entitled:		
Liabilities and stockholders' (shareholders') equity	73%	72%
Liabilities	27	24
Other	—	4
	100%	100%

Table 23. Savings

	1978	1977
Reports in which the number of captions used in describing savings was:		
One	91%	88%
Two	9	12
	100%	100%
Reports disclosing:		
Rate and/or maturity data	55%	52%
No rate and maturity data	45	48
	100%	100%
Number of reports in this table	44	49

EXAMPLE One savings caption used

BUCKEYE FEDERAL SAVINGS AND LOAN ASSOCIATION
(Statement Of Financial Condition)

	December 31	
	1978	1977
	(In thousands)	
Savings Reports	$661,545	$584,854

(Notes To Financial Statements)

Savings Deposits
Savings deposit balances by stated interest rate are summarized as follows:

	Interest rate	1978 Amount	1978 %	1977 Amount	1977 %
Passbook and passcard accounts	5.25%	$182,004	27.5	$194,740	33.3
90 day notice accounts	5.50	1,340	.2	1,652	.3
		183,344	27.7	196,392	33.6
Certificate accounts	5.25	1,732	.3	3,715	.6
	5.75	4,684	.7	9,418	1.6
	6.00	7,732	1.2	10,666	1.8
	6.25	752	.1	2,895	.5
	6.50	35,471	5.4	44,433	7.6
	6.75	27,754	4.2	30,243	5.2
	7.00	146	-	-	-
	7.25	4,350	.7	-	-
	7.50	145,767	22.0	166,630	28.5
	7.75	108,936	16.5	86,984	14.9
	8.00	23,511	3.5	-	-
	Other	301	-	6,005	1.0
Negotiated rate certificate accounts	5.25 - 11.00	42,515	6.4	27,473	4.7
Six month money market certificate accounts	7.34 - 9.83	74,550	11.3	-	-
		478,201	72.3	388,462	66.4
		$661,545	100.0	$584,854	100.0

The contractual maturity of certificate accounts at December 31, 1978 is as follows:

Year ending December 31,	
1979	$193,108
1980	42,567
1981	61,280
After 1981	181,246
	$478,201

The average interest rates on the savings account portfolio, computed without effect of compounding daily interest, at December 31, 1978 and 1977 were 7.03% and 6.52%, respectively.

GIBRALTER FINANCIAL CORPORATION OF CALIFORNIA
(Statement of Financial Condition)

	1978	1977
Savings Accounts	$2,624,926,000	$2,357,925,000

(Notes to Financial Statements)

The following information relates to savings accounts at December 31.

	1978		1977	
6%	$ 14,677,000	- %	$ 20,556,000	1%
6-1/2%	233,568,000	9	318,003,000	14
6-3/4	62,545,000	2	66,312,000	3
7	1,600,000	-	2,455,000	-
7-1/4	4,027,000	-	4,432,000	-
7-1/2	482,143,000	18	543,681,000	23
7-3/4	360,937,000	14	307,888,000	13
8	68,093,000	3	-	23
Market rates (A)	147,338,000	6	98,096,000	4
T-Bill plus (B)	408,233,000	16	-	-
Certificates	$1,783,161,000	68%	$1,361,423,000	58%
Passbook, 5-1/4%	773,293,000	29	842,629,000	36
Bonus, 5-3/4%	68,472,000	3	153,873,000	6
	$2,624,926,000	100%	$2,357,925,000	100%
Average rate	7.01%		6.43%	

(A) At December 31, the average interest rate on such certificates ($100,000 minimum) was 9.04% for 1978 and 7.04% for 1977.

(B) At December 31, 1978 the average interest rate on these accounts was 8.82%.

Actual interest expense divided by the average month end balance of $2,483,721,000 in 1978 and $2,215,311,000 in 1977 was 6.57% for 1978 and 6.36% for 1977.

Certificates provide for an interest penalty for withdrawal prior to maturity. Penalties are offset against interest expense in the Statement of Operations.

Certificates had the following maturities at December 31.

	1978	1977
1978	-%	28%
1979	34	6
1980	5	5
1981	10	10
1982	9	3
1983	5	6
After 1983	5	-
	68%	58%

UPTOWN FEDERAL SAVINGS AND LOAN ASSOCIATION OF CHICAGO
(Statement of Financial Condition)

	December 31 1978	1977
Savings	$304,538,810	$239,116,135

(Notes to Financial Statements)

Savings accounts consist of the following:

	December 31	
Interest Rate	1978	1977
Passbook:		
5.25%	$112,491,058	$114,804,175
Certificates of Deposit:		
5.25%	-	169,524
5.75	4,320,671	8,655,154
6.00	972,700	1,638,378
6.50	24,200,872	28,836,011
6.75	8,030,107	7,997,624
7.14	401,951	484,826
7.50	47,088,140	48,405,084
7.75	36,330,848	28,235,359
8.00	8,791,094	-
Money market certificates:		
7.42% to 9.83%*	61,911,369	-
	$304,538,810	$239,116,135
Weighted average interest rate	6.85%	6.23%

*The weighted average nominal interest rate for 1978 was 8.80%.

As of December 31, 1978, certificates of deposit and money market certificates have scheduled maturity dates as follows:

Maturity During The Year Ending December 31	Account Balances
1979	$102,339,013
1980	13,405,070
1981	25,104,465
1982 and thereafter	51,199,204
	$192,047,752

EXAMPLE Two savings captions used

AMERICAN SAVINGS AND LOAN ASSOCIATION OF FLORIDA
(Statement of Financial Condition)

	September 30 1978	1977
Savings Accounts:		
Accounts earning interest at passbook rate	$ 263,535,464	$244,135,415
Accounts earning interest in excess of passbook rate	854,387,721	664,620,896
Total Savings Accounts	1,117,923,185	908,756,311

(Notes to Financial Statements)

The weighted average interest rates paid during the years ended September 30, 1978 and 1977 on all savings accounts were 6.77% and 6.68%, respectively.

The rates at which the Association paid interest on savings accounts and related balances at September 30, 1978 and 1977 are as follows:

Rate	1978	1977
5.25% Passbook	$ 263,535,464	$244,135,415
Certificate Accounts		
5.26-5.50%	4,374	320,941
5.51-5.75%	8,744,978	33,619,254
5.76-6.00%	2,011,600	8,703,327
6.01-6.25%	11,694	1,181,449
6.26-6.50%	113,360,415	157,191,089
6.51-6.75%	24,725,556	41,908,472
6.76-7.00%	8,661,875	4,097,987
7.01-7.25%	17,426,258	1,622,342
7.26-7.50%	332,477,272	254,496,220
7.51-7.75%	256,854,829	156,280,839
7.76-8.00%	52,967,969	4,991,476
Over 8.00%	37,140,901	207,500
Total	$1,117,923,185	$908,756,311

At September 30, 1978, the amounts of scheduled maturities of certificate accounts in excess of the passbook rate are:

Year Ended September 30,	
1979	$360,218,156
1980	80,616,830
1981	121,041,956
Thereafter	292,510,779
Total	$854,387,721

CANYON SAVINGS AND LOAN ASSOCIATION
(Statement of Financial Condition)

	December 31 1978	1977
Passbook savings deposits	$31,422,802	$30,336,917
Certificate savings deposits	62,112,260	45,493,51

Borrowed funds

Borrowed funds were found in all reports surveyed. Federal Home Loan Bank advances continue to be the most common source of borrowed funds. The surveyed companies showed a clear preference for disclosing borrowed funds in two or more captions in the statement of financial condition when such funds were obtained from more than one source, with details shown in a note to the financial statements. Additionally, the reports showed most debt was secured. Compensating balance arrangements were disclosed by 13% (6% in 1977) of the companies.

EXAMPLES Borrowed funds with one caption disclosure

H.F. AHMANSON & COMPANY
(Statement of Financial Condition)

	December 31	
	1978	1977
Notes and Bonds Payable	$1,451,633,000	$981,985,000

(Notes to Financial Statements)

Notes and Bonds Payable

	December 31	
	1978	1977
Notes and bonds payable are summarized as follows:		
Notes payable to bank, 8% as described below	$ 20,000,000	$ 22,000,000
Federal Home Loan Bank advances, with interest rates ranging from 6-7/8% to 9-1/2% (1978) and 6-1/4% to 9% (1977)	1,011,712,000	523,590,000
Mortgage-Backed Bonds:		
Series A--7-1/4%, due 1982	200,000,000	200,000,000
Series B--7-3/4%, due 1983	100,000,000	100,000,000
Series C--7-7/8%, due 1985	100,000,000	100,000,000
Notes payable to others, secured by GNMA loan certificates amounting to $22,396,000 (1978) and $37,518,000 (1977)	19,410,000	36,243,000
Other	511,000	152,000
	$1,451,633,000	$981,985,000

WESCO FINANCIAL CORPORATION
(Statement Of Financial Conditions)

	1978	1977
Notes payable	$59,297,000	$27,830,000

(Notes To Financial Statements)

The following is a summary of notes payable:

	1978	1977
Company:		
Note payable, secured by main office land, buildings, and assignment of leases, with interest at 9.25%	$ 5,428,000	5,467,000
Mutual:		
Federal Home Loan Bank advances, secured by certain real estate loans amounting to $73,453,000 in 1978 and $50,905,000 in 1977 and Federal Home Loan Bank stock, with interest at 9.50% and 7.5% in 1978 and 7.5% in 1977	53,869,000	22,363,000
	$59,297,000	27,830,000

Notes payble mature as follows:

	Company	Consolidated
1979	$ 43,000	5,287,000
1980	47,000	5,291,000
1981	51,000	5,295,000
1982	56,000	15,800,000
1983	62,000	21,056,000
Thereafter	5,169,000	6,568,000
	$5,428,000	59,297,000

CANYON SAVINGS AND LOAN ASSOCIATION
(Statement of Financial Condition)

	December 31	
	1978	1977
Advances from Federal Home Loan Bank	$6,070,000	$1,460,000

(Notes to Financial Statements)

ADVANCES FROM FEDERAL HOME LOAN BANK

Advances from the Federal Home Loan Bank at December 31 are as follows:

Due Date	Interest Rate	1978	1977
$150,000 quarterly, through July 1979	9.00%	$ 450,000	$1,050,000
November 1978	8.60%	-	100,000
February 1979	8.95%	210,000	210,000
August 1979	9.00%	100,000	100,000
June 1979 (Range during 1978 was 8.0% to 10.75%)	Variable	5,000,000	-
$38,750 annually through September 1982	8.05%	155,000	-
$38,750 annually through October 1982	8.20%	155,000	
		$6,070,000	$1,460,000

Advances are secured by stock of the Federal Home Loan Bank and first mortgage loans of approximately $11,396,000 at December 31, 1978, and $6,930,000 at December 31, 1977.

EXAMPLES Borrowed funds with two or more captions disclosure (Taken from statement of financial condition and notes to financial statements)

FIRST LINCOLN FINANCIAL CORPORATION
(Statement Of Financial Condition)

	December 31 1978	1977
	(000's omitted)	
Federal Home Loan Bank Advances	$26,180	$6,550
Notes Payable	22,767	6,438

(Notes To Financial Statements)

FEDERAL HOME LOAN BANK ADVANCES

These notes payable have current interest rates ranging from 8% to 11% at December 31, 1978 and 1977, are secured by the stock in the Federal Home Loan Bank and approximately $102,000,000 of loans receivable, and are payable as follows:

	1978	1977
	($000's omitted)	
1979	$18,580	2,950
1980	2,000	-
1981	2,000	-
1984	3,600	3,600
	$26,180	6,550

The Association has an open line of credit with the Federal Home Loan Bank for short term borrowing totaling approximately $9,000,000.

Average borrowings based upon month-end balances were $11,325,000 in 1978 and $8,298,000 in 1977. Based upon these balances, the weighted average interest rate was 8.5% in 1978 and 7.9% in 1977.

NOTES PAYABLE

Notes payable to commercial banks and other lenders are as follows:

	1978	1977
	($000's omitted)	
Short-term notes payable to banks under lines of credit bearing interest at the bank's prime interest rate at the date of advance or renewal, 11-3/4% in 1978 and 7-3/4% in 1977, unsecured in 1978 secured by loans receivable approximating $24,500,000 in 1977	$ 5,000	2,500
Securities sold with agreement to repurchase with current rates ranging from 9.80% to 10.85% in 1978 and 6-3/8% to 6-3/4% in 1977. The securities repurchase agreement covers United States Government obligations with a par vlaue of $15,659,000 in 1978 and $4,000,000 in 1977	14,802	3,920
Unsecured borrowings from bank	2,947	-
Other notes payable	18	18
	$22,767	6,438

The Association and its subsidiary have lines of credit agreements with commercial banks totaling $20,000,000 at December 31, 1978 and $23,500,000 at December 31, 1977.

Average borrowings based upon month-end balances (up to a maximum of $14,824,000 in 1978 and $13,968,000 in 1977) were $8,288,000 in 1978 and $3,284,000 in 1977. Based upon these balances the weighted average interest rate was approximately 8.0% in 1978 and 6.8% in 1977.

IMPERIAL CORPORATION OF AMERICA
(Statement Of Financial Condition)

	December 31 1978	1977
Advances from Federal Home Loans Banks, secured	$513,793,000	$406,887,000
Bonds and notes payable, partially secured	130,041,000	148,594,000

(Notes To Financial Statements)

Advances From Federal Home Loan Banks and Bonds and Notes Payable

The Federal Home Loan Bank advances have maturity dates from January 1979 to May 1988 with approximately $165,367,000 due within one year. The advances bear interest at rates ranging from 6-3/4 to 10% and are secured by real estate loans and Federal Home Loan Bank capital stock.

Imperial Savings and Loan Association, a wholly-owned subsidiary, issued $100,000,000 of 7.7% Mortgage-Backed. Bonds in 1977 which mature in 1987 and are callable at par on or after June 15, 1984. Terms of the issue require the mortgage collateral to be at least 150% of the outstanding bonds based on a formula in the indenture.

Notes payable have maturity dates from March 1979 to December 1989 with approximately $22,237,000 due within one year. The notes bear interest at rates ranging from 5-1/4% to 11-3/4% and are partially secured.

The 6-1/2% Convertible Subordinated Notes are due in installments to 1987 and are convertible into shares of the company's common stock at $15,1725 per share.

FIRST S&L SHARES, INC.
(Statement Of Financial Condition)

	June 30 1978	 1977
Advances from Federal Home Loan Bank	$124,738,983	$114,440,668
Notes payable	13,138,890	10,246,810

(Notes To Financial Statements)

Federal Home Loan Bank System

The Associations may obtain advances from the Federal Home Loan Bank of Topeka using real estate loans and the stock of such bank as collateral. Presently, the Federal Home Loan Bank of Topeka will not lend to an association for loan expansion purposes when such association's total borrowings from all sources exceed 20% of the savings deposits of the association. Certain designated special advances and advances made to cover net withdrawals of savings deposits are not considered borrowings for this purpose; however, funds deposited with an association by an affiliate are considered borrowings. At June 30, 1978 the Associations had such advances for loan expansion purposes totaling $124,588,983 (which does not include $150,000 savings withdrawal advances) out of a maximum obtainable at that date of $127,421,490.

The principal repayments on these notes are summarized below:

	Year ended June 30						
Rate	1979	1980	1981	1982	1983	1984	Total
6.500%	$ 1,408,750						$ 1,408,750
6.750		$ 3,408,750					3,408,750
7.000		2,390,000	$ 5,000,000				7,390,000
7.250			750,000				750,000
7.375	11,500,000	1,000,000					12,500,000
7.500	14,787,877	8,450,184	19,850,184	$12,050,184	$4,250,185	$2,007,927	61,396,541
7.650		335,000					335,000
7.750	1,289,500	677,750	740,000				2,707,250
7.800	950,000						950,000
7.900	27,277,692						27,277,692
8.000	2,000,000	2,475,000					4,475,000
8.150	2,140,000						2,140,000
	$61,353,819	$18,736,684	$26,340,184	$12,050,184	$4,250,185	$2,007,927	$124,738,983

The Associations have pledged certain real estate loans aggregating $153,259,459 and its Federal Home Loan Bank stock as collateral for the advances.

The associations are required to own shares of capital stock in the Federal Home Loan Bank of Topeka based on borrowings from such bank. At June 30, 1978 the required amount of such stock was owned. The dividend rate was 6.00% for the year ended December 31, 1977.

Notes Payable

The Corporation entered into a loan agreement pursuant to which it has borrowed $10,750,000 and which provides for additional borrowings of $2,000,000 in annual installments of $1,000,000 through August 31, 1979. One annual increment may be deferred, at the Corporation's option, and cumulated with a succeeding installment or deferred until August 31, 1980. The availability of each additional borrowing is predicated on the Corporation's savings or assets increasing 10% over the previous June 30, or 21% over the June 30 two years prior to the borrowing. Interest, currently at 9.25% per annum, escalates to 9.50% on September 1, 1978 and increases to a maximum of 9.75% on September 1, 1979. The borrowings under this agreement are repayable in 15 annual installments commencing April 15, 1987. Of the proceeds from the Corporation's loan, $9,250,000 was contributed to Majestic and $1,500,000 was loaned to USA for contribution to Commerce.

The remaining notes of the Corporation mature in 1984 and 1987 and bear interest at 5.50 to 6.50%. These notes are collateralized by real estate investments carried at approximately the amount of the debt. Principal repayments over the next five years approximate $30,000 annually.

Majestic has borrowed $2,000,000 at 5.50% interest from Colorado Housing Finance Authority pursuant to their "Loans to Lenders Program." The borrowing is collateralized by mortgage loans and is repayable in ten installments commencing September 27, 1978. The first such installment aggregates $175,000 and generally future installments increase annually to a maximum final installment of $250,000.

Majestic has an available bank line of credit of $1,000,000 with interest at the bank's prime rate. The line of credit expires December 31, 1978.

USA had $90,000 unsecured borrowings payable to a bank at the bank's prime lending rate (9.00% at June 30, 1978) plus 1%. Principal repayments for the year ending June 30, 1979 is $90,000.

Any additional external borrowings by FSL require written approval from the Federal Savings and Loan Insurance Corporation pursuant to the debt limitations for savings and loan holding companies.

EXAMPLES Borrowed funds with multiple captions disclosure and compensating balances

FIDELITY FINANCIAL CORPORATION
(Statement of Financial Condition)

	December 31	
	1978	1977
Other Borrowings	$ 99,466,000	$ 19,450,000
Advances from Federal Home Loan Bank of San Francisco	195,205,000	181,813,000

(Notes to Financial Statements)

OTHER BORROWINGS

Other borrowings consisted of the following at December 31:

	1978	1977
Commercial paper, average interest rate 10.68%, net of unamortized discount of $91,000	$ 9,709,000	$ -
Reverse repurchase agreements, 9.9% secured by pledged securities with an approximate market value of $9,700,000	9,682,000	-
Notes payable to banks, average interest rate 11.72% (1977-8.12%):		
Unsecured	50,000,000	3,500,000
Secured by pledges of certain real estate loans of Fidelity with outstanding principal balances of approximately $45,800,000 (1977-$19,400,000)	30,000,000	15,000,000
Secured by 157,683 shares of the guarantee capital stock of Fidelity owned by the Company	75,000	950,000
	$99,466,000	$19,450,000
Average interest rate at year end	11.44%	8.12%
Highest month end balance	$99,466,000	$29,000,000
Average monthly borrowings	58,835,000	13,004,000
Weighted average interest rate, based on the above balances and actual interest expense	9.28%	6.98%

All of the above borrowings mature in 1979. The funds received by the Company from issuing commercial paper are invested by the Company in certificates of deposit of Fidelity at interest rates approximating those paid by the Company and maturing on the same date as the commercial paper.

Under the terms of the borrowing agreements with certain banks, $30,000,000 of the above unsecured borrowings must be invested by Fidelity in federal funds at these banks.

UNITED FINANCIAL CORPORATION OF CALIFORNIA
(Statement of Financial Condition)

	December 31	
	1978	1977
Borrowings from Federal Home Loan Bank	$191,215,000	$188,766,000
8-1/8% notes due in 1987	29,872,000	29,857,000
Other obligations	11,380,000	2,968,000

(Notes to Financial Statements)

Notes Payable
8-1/8 notes due 1987

In July 1977, the company issued $30,000,000 of 8-1/8% unsecured notes in a public offering at a discount of $150,000. The notes mature on July 15, 1987, and are non-redeemable prior to July 15, 1986. The proceeds of the notes were used to purchase from Citizens Savings and Loan an 8-1/8% subordinated note which is considered part of Citizens' net worth for certain regulatory purposes. The proceeds from the sale of the note by Citizens were used to reduce short-term borrowings. The indenture for the notes contains restrictions pertaining to the issuance of additional secured borrowings, incurrence of funded debt and the payment of cash dividends.

Other obligations	December 31	
	1978	1977
Notes directly related to real estate ventures: 8% to 9-1/2% due through 1983	$10,212,000	$ 597,000
Notes related to the acquisition of Avalon and Guardian Savings & Loan associations--6% to 8%--due 1978		1,769,000
Obligations relating to capital leases (Note 8)	1,168,000	602,000
	$11,380,000	$2,968,000

Borrowings From Federal Home Loan Bank

Advances to the association from the Federal Home Loan Bank of San Francisco at December 31, 1978 are repayable as follows (in millions).

Rate	Total	1979	1980	1981	1982	1983	1984
7.50%	$ 5.8	$ 5.8					
7.65	3.6	3.6					
7.75	9.0	3.0	$ 3.0	$3.0			
8.00	15.2	11.2	4.0				
8.05	3.7	.7	.7	.7	$ 8	$ 8	
8.08	4.4						$ 4.4
8.14	6.6						6.6
8.15	13.1	10.2	.7	.8	.7	.7	
8.17	6.7						6.7
8.25	30.0	1.5	1.5	1.5	10.5	15.0	
8.375	20.0	1.0	1.0	1.0	7.0	10.0	
8.50	1.4	1.4					
8.75	20.0	1.0	1.0	1.0	7.0	10.0	
8.95	4.0	4.0					
9.00	7.7	7.7					
10.75	30.0	30.0					
11.00	10.0	10.0					
8.80%	$191.2	$91.1	$11.9	$8.0	$26.0	$36.5	$17.7

Federal Home Loan Bank borrowings averaged $191 million during 1978 at a weighted average interest rate of 8.16%. The advances are secured by pledges of real estate loans aggregating approximately $300 million and by the investment in capital stock of the Federal Home Loan Bank of San Francisco.

Lines of Credit

The company maintained lines of credit with commercial banks totaling $25 million in 1978. The line-of-credit agreements generally provide for interest at the bank's prime rate and for a liquidation of borrowings for a minimum of 30 days each year. The agreements also generally provide for compensating cash balances to be maintained with the bank at 5% to 10% of the line plus an equal percentage of borrowings. Such balances are not legally restricted. There was $750,000 borrowed for 90 days under the lines of credit during 1978.

MERCURY SAVINGS AND LOAN ASSOCIATION
(Statement of Financial Condition)

	December 31	
	1978	1977
Advances from the Federal Home Loan Bank	$61,558,167	$36,274,833
Notes Payable	40,616,057	6,000,000

(Notes to Financial Statements)

Advances from the Federal Home Loan Bank:

As a member of the FHLB system, the Association may borrow to meet withdrawals from savings accounts, seasonal lending commitments and for selective long-term needs. Advances may be obtained for short terms (one year or less) or long terms (usually five to ten years.)

Advances are collateralized by pledges of certain real estate loans aggregating approximately $98,000,000 and the Association's investment in capital stock of the Federal Home Loan Bank of San Francisco.

The following is a summary of advances outstanding from the FHLB at year-end by maturity date:

Annual payments due	1978	1977
1978	$ -	$19.196,666
1979	36,724,167	7,728,167
1980	8,946,000	4,700,000
1981	7,246,000	3,000,000
1982	4,246,000	
1983	4,396,000	1,650,000
	$61,558,167	$36,274,833

Interest rates on these advances ranged from 7.45% to 11.30% (1978) and 6.70% to 9.00% (1977). Average borrowings based upon month-end balances were approximately $43,712,000 (1978) and $33,294,000 (1977). Based upon these balances, the weighted average interest rates were 7.99% (1978) and 7.64% (1977).

Notes Payable:
Notes payable consist of the following:

	1978	1977
Borrowings under lines of credit	$30,000,000	$6,000,000
Note payable collateralized by a first trust deed, 9%, due in annual installments of $1,807,019 through September 1981	5,421,057	
Borrowings under repurchase agreements collateralized by certain marketable securities (par value $5,500,000), 10.35% to 10.45%, due February 1979	5,195,000	
	$40,616,057	$6,000,000

The Association has lines of credit with four banks that permit aggregate borrowings of $35,000,000. These lines are collateralized by pledges of real estate loans of approximately $55,000,000 at December 31, 1978. The lines mature in April, June and September 1979 and March 1980. The outstanding balances at December 31, 1978, bear interest at rates of prime ($10,000,000) and 1/4% above prime ($20,000,000). Borrowings under one of the lines of credit requires a compensating balance equal to 10% of the line ($10,000,000 total line) plus 10% of any borrowings under the line.

EXAMPLES Mortgage backed bonds

FIRST CHARTER FINANCIAL CORPORATION
(Statement of Financial Condition)

	December 31	
	1978	1977
Mortgage Backed Bonds payable	$400,000,000	$200,000,000

(Notes to Financial Statements)

Mortgage-Backed Bonds

The Association in June 1977 issued $200,000,000 7-1/4% mortgage-backed bonds due June 1, 1982 (Series A) and in April 1978 the Association issued an additional $200,000,000 8-1/2% mortgage-backed bonds due April 15, 1984 (Series B). These bonds are collateralized by loans and GNMA certificates with aggregate principal balances at December 31, 1978, of $293,104,000 and $330,796,000 respectively.

Subsequent to December 31, 1978, additional collateral has been deposited with the trustee with aggregate principal balances of $27,700,000 and $29,500,000 respectively.

EXAMPLES Subordinated debentures

DOWNEY SAVINGS AND LOAN ASSOCIATION
(Statement of Financial Condition)

	December 31	
	1978	1977
Subordinated debentures	$6,500,000	$6,500,000

(Notes to Financial Statements)
Subordinated Debentures

During 1977, the Association issued 10% unsecured subordinated debentures due in 1991. Interest is due semiannually with annual principal reductions of $650,000 due from 1982 to 1991.

WESTERN FINANCIAL CORPORATION
(Statement of Financial Condition)

	December 31	
	1978	1977
Subordinated debt		
9% subordinated capital notes due 1994	$10,000,000	$10,000,000
9% convertible subordinated notes due 1993	1,000,000	--
8% convertible subordinated notes due 1989	500,000	500,000

(Notes to Financial Statements)

Subordinated debt

a. The 9% Subordinated Capital Notes of the Association were issued in 1974. Principal payments of $768,000 are due each July, commencing in 1982. The notes restrict the issuance of additional long-term debt (as defined) and the payment of dividends by the Association under certain circumstances.

b. The 8% Convertible Subordinated Note and the 9% Convertible Subordinated Note of the Company were issued in 1974 and 1978, respectively, under an agreement with the General Electric Pension Trust.

Under the agreement, subject to certain conditions, the Company may borrow up to an additional $1,000,000 through July, 1979. The interest rates on future borrowings are determined under a formula subject to a maximum rate of 9% and minimum of 7%. An annual standby fee of 1% of the unused commitment is charged. The agreement requires prepayments of 10% of each borrowing commencing in 10 years after the date of the borrowing. The notes are convertible into common stock at $10.80 and $14.125, respectively, at December 31, 1978. The agreement includes provisions restricting the payment of dividends and reducing the conversion prices under certain circumstances.

Other liabilities

Other liabilities consists of those accounts, generally not material in themselves, which do not conform to other captions in the liabilities section. Included are such items as accrued expenses, income taxes, and miscellaneous accounts payable. Table 24 reveals that most reporting entities disclosed accrued income taxes as a separate caption. The statement of financial condition disclosure of accrued income taxes is covered in the Deferred Income Taxes section.

Table 24. Other Liabilities

	1978	1977
Reports in which income taxes were:		
Disclosed in a separate caption	91%	96%
Not disclosed	9	4
	100%	100%

Stockholders' equity accounts

Stockholders' equity accounts were set out in the last section of the statement of financial condition and were preceded by a separate title designation in most cases. Reports generally used the wording "stockholders' equity" or "shareholders' equity".

Various captions were used to indicate additional paid-in surplus or capital. The title "retained earnings" was used by almost all companies to disclose appropriated and unappropriated retained earnings. "Appropriated" and "unappropriated" were the captions most generally used as sub-captions to retained earnings.

The survey revealed that five companies issued stock dividends during the year compared with three companies in the preceding year. Four reports in the 1979 survey (all in 1978) reflected the resulting charge (at market value) in the retained earnings section. The charge was not made specifically to either appropriated or unappropriated retained earnings.

Table 25. Additional Paid-In Surplus or Capital Account Captions

	1978	1977
Reports in which additional paid-in surplus or capital was captioned:		
Capital surplus or capital in excess of par	46%	40%
Additional paid-in surplus or capital	22	30
Paid-in capital	18	10
Paid-in surplus	5	6
Other	2	8
	93	94
No additional paid-in capital disclosed	7	6
	100%	100%

Table 26. Retained Earnings Captions

	1978	1977
Reports in which retained earnings was titled:		
Retained earnings	80%	82%
Retained income	9	12
Other	11	6
	100%	100%

Table 27. Retained Earnings Sub-Captions

	1978	1977
Reports in which retained earnings sub-captions were:		
Appropriated and unappropriated	50%	64%
None	18	12
Restricted and unrestricted	16	18
Other	16	6
	100%	100%

Table 28. Charges Resulting from Stock Dividends Recorded at Market Value

	1978	1977
Reports in which the charges resulting from stock dividends recorded at market value were:		
Deducted from total retained earnings	80%	100%
Charged to unappropriated retained earnings	20	—
	100%	100%
Number of reports included in this table	5	3

EXAMPLES Stockholders' equity titles

PACIFIC COAST HOLDINGS, INC.

Stockholders' equity

BROADVIEW FINANCIAL CORPORATION

Shareholders' Equity

EXAMPLES Additional paid-in surplus or capital accounts titles

FAR WEST FINANCIAL CORPORATION

Capital in excess of par value.

SKOKIE FEDERAL SAVINGS AND LOAN ASSOCIATION

Additional paid-in capital

EXAMPLES Retained earnings captions and subcaptions (Taken from statement of financial condition)

CATALINA SAVINGS AND LOAN ASSOCIATION

	December 31	
	1978	1977
Retained earnings:		
Appropriated to general reserves	$3,736,841	$2,277,434
Unappropriated	3,070,747	2,214,007
	6,807,588	4,491,441

GOVERNMENT SERVICES SAVINGS AND LOAN INC.

	March 31	
	1979	1978
Retained income (including $6,004,760 in 1979 and $5,097,133 in 1978 appropriated as general reserves)	$9,186,088	$7,415,313

BASS FINANCIAL CORPORATION

	March 31	
	1979	1978
Retained earnings:		
Allocated to general reserves	$18,405,647	$15,562,000
Unallocated	4,947,668	4,122,298
Total Retained Earnings	$23,353,315	$19,684,298

NORTHERN CALIFORNIA SAVINGS & LOAN ASSOCIATION

	December 31	
	1978	1977
Retained earnings	$87,752,000	$72,553,000

EXAMPLES Retained earnings disclosures (Taken from notes to financial statements)

ALAMO SAVINGS ASSOCIATION

RESTRICTIONS ON AVAILABILITY OF RETAINED EARNINGS

Supervisory regulations and federal income tax requirements impose certain concurrent restrictions on the availability of retained earnings. A summary of retained earnings so restricted as of December 31, 1978, follows:

	Supervisory Regulations		Federal
	General Reserves	Net Worth Requirement	Income Tax Requirement
Required amount	$9,821,937	$8,603,093	$5,818,873
Less:			
Appropriated capital in excess of par value	(4,519,400)	(4,519,400)	--
Capital stock	--	(843,847)	--
Restricted retained earnings	$5,302,537	$3,239,846	$5,818,873

Accordingly, based on the larger restriction ($5,818,873) as of December 31, 1978, the Association's unrestricted retained earnings totaled $1,692,149.

Supervisory Regulations

General Reserves

Supervisory regulations require general reserves for possible losses. The principal reserve is that required by the Federal Savings and Loan Insurance Corporation. Such reserve must be maintained in an amount at least equal to 5% of the average savings capital at the closing date of the current fiscal year and one or more of the four immediately preceding annual closing dates. The amount of general reserves exceeded the minimum requirement at December 31, 1978 and 1977.

Net Worth Requirement

The Association is required to maintain a specific "net worth" based on asset-composition multiplied by varying percentages according to the risk attributes of the related assets, or the amount of the Federal Insurance Reserve plus 20% of scheduled items (delinquent loans, real estate acquired in settlement of loans, etc.), whichever is greater. The Association's net worth was in excess of the minimum requirement at December 31, 1978 and 1977.

Federal Income Tax Requirement

The Association has qualified under provisions of the Internal Revenue Code which permit it to deduct from taxable income a specified allowance for bad debts in lieu of the provision for such losses charged to operations in the financial statements. Accordingly, retained earnings in the amount of $5,818,873 at December 31, 1978, have been accumulated without provision for federal income taxes. If this portion of retained earnings is reduced for any purpose other than to absorb bad debt losses, federal income taxes would be imposed at the then applicable rates on such reduction.

PROGRESSIVE SAVINGS AND LOAN ASSOCIATION

APPROPRIATED RETAINED EARNINGS

In connection with the insurance of savings accounts by the Federal Savings and Loan Insurance Corporation, the Association is required to appropriate retained earnings which may be used only for absorbing loan losses. These appropriations are not related to amounts of losses actually anticipated, and the appropriations thereto have not been charged against earnings. At both December 31, 1978 and 1977, the Association's Federal insurance reserve, included in appropriated retained earnings, met all regulatory requirements pertaining to such reserve.

GOLDEN WEST FINANCIAL CORPORATION

STOCKHOLDERS' EQUITY

Federal and state regulatory authorities require that certain minimum amounts be maintained in general reserves and that appropriations be made annually from net earnings. At December 31, 1978 and 1977, the accumulated reserves of the associations were in excess of these regulatory requirements.

The accumulated regulatory reserves are available only to cover future losses and, therefore, are not available for the payment of cash dividends by the associations. Unappropriated retained earnings represent earnings on which taxes have been paid or on which taxes have been provided.

EXAMPLES Stockholders' equity sections (Taken from statement of financial condition)

BASS FINANCIAL CORPORATION

	March 31	
	1979	1978
Stockholders' equity		
Common Stock, par value $1.00 per share:		
Authorized 1,750,000 shares; issued (including 137,250 shares in treasury): 1979--1,130,297 shares; 1978--1,124,997 shares	$ 1,130,297	$ 1,124,997
Additional paid-in capital	3,996,089	3,970,189
Retained earnings:		
Allocated to general reserves	18,405,647	15,562,000
Unallocated	4,947,668	4,122,298
Total Retained Earnings	23,353,315	19,684,298
Cost of Common Stock in treasury (deduction)	(737,923)	(737,923)
Total Stockholders' Equity	$27,741,778	$24,041,561

EQUITABLE SAVINGS & LOAN ASSOCIATION

	December 31	
	1978	1977
Stockholders' equity		
Class A preferred stock, no par value; authorized 2,500,000 shares; none issued	$ -	$ -
Class B preferred stock, no par value; authorized 2,500,000 shares; none issued	-	-
Common stock, $2 par value per share. Authorized 5,000,000 shares; issued 2,090,389 shares (2,072,173 shares issued at 1977)	4,180,778	4,144,346
Paid-in capital	3,674,503	3,428,308
Retained earnings:		
Appropriated	33,743,847	33,743,847
Unappropriated	18,370,538	9,380,953
Total retained earnings	52,114,385	43,124,800
Less treasury shares, at cost; 142,016 shares at both dates	774,776	774,776
Total stockholders' equity	$59,194,890	$49,922,678

FIRST LINCOLN FINANCIAL CORPORATION

	December 31	
	1978	1977
	000's omitted	
Stockholders' equity:		
Common stock, without par value:		
Authorized 5,000,000 shares: issued at value, 2,656,163 shares in 1978 and 1977	$ 2,656	$ 2,656
Capital surplus:		
Additional paid-in	7,714	7,726
Arising from stock dividends	5,900	5,900
Retained earnings:		
Appropriated to general reserves	16,219	16,907
Unappropriated	16,515	11,310
Less market value of stock dividends	(6,562)	(6,562)
Less treasury stock, at cost, 306,991 shares (323,638 in 1977)	(875)	(922)
Total stockholders' equity	$41,567	$37,015

EXAMPLES Charges resulting from stock dividends recorded at market value--dangling debit (Taken from statement of financial condition)

TRANSOHIO FINANCIAL CORPORATION

	December 31	
	1978	1977
Shareholders' equity:		
Preferred stock, $1 par value, 1,000,000 shares authorized, none issued		
Common stock, $1 par value; 10,000,000 shares authorized, 3,641,247 shares issued, less 139,139 shares in treasury (3,445,288 shares issued, less 139,139 shares in treasury at December 31, 1977)	$ 3,502,000	$ 3,306,000
Capital surplus	20,977,000	18,981,000
Retained earnings		
Appropriated to general reserves of associations, subject to income tax under certain conditions	52,546,000	47,494,000
Less appropriated reserves at date of acquisition by purchase	(18,608,000)	(18,608,000)
Total appropriated retained earnings	33,938,000	28,886,000
Unappropriated retained earnings	32,663,000	26,134,000
Total retained earnings	66,601,000	55,020,000
Total shareholders' equity	$91,080,000	$77,307,000

FIRST S&L SHARES, INC.

	June 30	
	1978	1977
Stockholders' Equity		
Preferred Stock, par value $100.00 a share:		
Authorized 100,000 shares; none issued		
Common Stock, par value $2.50 a share:		
Authorized 2,000,000 shares; issued and outstanding: 1978--986,926 shares; 1977--982,576 shares	$ 2,467,315	$ 2,456,440
Capital in excess of par value	6,754,420	6,709,176
Retained earnings:		
Appropriated	18,990,044	16,867,910
Unappropriated	6,142,846	4,075,739
Market value of stock dividends	(5,701,434)	(5,701,434)
	19,431,456	15,242,215
Total Stockholders' Equity	28,653,191	24,407,831

GUARANTEE FINANCIAL CORPORATION OF CALIFORNIA

	December 31	
	1978	1977
Stockholders' equity:		
Capital stock, par value $2 a share; authorized, 10,000,000 shares; issued and outstanding, 2,337,234 and 2,334,508 shares	$ 4,675,000	$ 4,669,000
Capital surplus:		
Paid-in	458,000	433,000
Arising from stock dividends	5,312,000	5,312,000
	5,770,000	5,745,000
Retained earnings:		
Appropriated to general reserves, subject to tax under certain conditions	41,484,000	34,385,000
Unappropriated	11,832,000	9,231,000
Less stock dividends--at market	(9,427,000)	(9,427,000)
	43,889,000	34,189,000
Total stockholders' equity	$54,334,000	$44,603,000

CATALINA SAVINGS AND LOAN ASSOCIATION

	1978	1977
Stockholders' equity:		
Guaranty stock of $1 par value. Authorized 1,500,000 shares; issued 948,412 shares in 1978 and 883,405 in 1977	$ 948,412	$ 883,405
Capital surplus		
Paid in	882,300	785,536
Arising from stock dividends	1,865,762	1,389,303
	2,748,062	2,174,839
Retained earnings (notes 7 and 8):		
Appropriated to general reserves	3,736,841	2,277,434
Unappropriated	3,070,747	2,214,007
	6,807,588	4,491,441
Market value of 5% stock dividend	(521,621)	(315,503)
	6,285,967	4,175,938
Total stockholders' equity	$9,982,441	$7,234,182

FINANCIAL CORPORATION OF SANTA BARBARA

	December 31	
	1978	1977
Stockholders' Equity		
Capital Stock, Par Value $1 a Share; Authorized 5,000,000 Shares; Issued and Outstanding, 3,872,720 Shares (1978) and 1,926,407 (1977)	$ 3,873,000	$ 1,926,000
Capital Surplus:		
Paid-in	1,672,000	3,529,000
Resulting from Stock Dividends	3,739,000	3,739,000
	5,411,000	7,268,000
Retained Earnings:		
Appropriated to General Reserves of Subsidiary Association (subject to tax under certain circumstances)	54,160,000	46,134,000
Unappropriated	14,604,000	11,349,000
Less Stock Dividends at Market	(4,037,000)	(4,037,000)
	64,727,000	53,446,000
	$74,011,000	$62,640,000

Commitments and contingent liabilities

Disclosures of commitments and contingent liabilities in the surveyed reports were usually made in a separate note to the financial statements. It was also noted that the existence of commitments and/or contingencies was usually disclosed on the statement of financial condition.

EXAMPLES Commitments and/or contingencies (Taken from separate notes to financial statements)

AMERICAN SAVINGS AND LOAN ASSOCIATION OF FLORIDA

(Commitments and Contingencies)

The Association is lessee under various agreements extending to the year 2074. The minimum annual rentals (including amounts payable under lease-purchase agreements--see Note 4) approximate $572,000 through 1979 and lesser amounts thereafter.

The Association has made commitments to originate or purchase loans approximating $78,189,000 at September 30, 1978 excluding undisbursed portions of loans in process.

The Association is a defendant, along with certain other financial institutions in the State of Florida, in a class action lawsuit alleging anti-trust violations, among other matters, for the nonpayment of interest on escrow accounts established to pay annual taxes and insurance premiums on real property securing mortgage loans. It is the opinion of the Association's management and legal counsel that the probability of the Association incurring a material loss as a result of this suit is remote.

FIRST S&L SHARES, INC.

(Commitments and Contingency)

At June 30, 1978 the Corporation had outstanding commitments of approximately $33,879,000 for mortgage loan originations and approximately $36,050,000 for mortgage loan sales.

Total consolidated rental expenses amounted to $567,352 and $464,486 for the years ended June 30, 1978 and 1977, respectively. These expenses are net of sublease rentals of $176,579 in 1978 and $160,896 in 1977.

The future consolidated minimum rental commitments (including option periods in those instances where renewal is anticipated) as of June 30, 1978 for all noncancelable leases (primarily operating) are as follows:

Year Ending	Total	Office Premises	Land
1979	$ 524,736	$ 427,239	$ 97,497
1980	523,050	425,553	97,497
1981	502,379	404,882	97,497
1982	503,087	405,590	97,497
1983	500,287	402,790	97,497
1984 and thereafter	8,444,084	5,221,394	3,222,690
	$10,997,623	$7,287,448	$3,710,175

Certain of the leases provide for options to renew and for payment of taxes, insurance, and maintenance cost.

The Corporation is contingently liable to a lender in connection with a mortgage with an unpaid balance of $173,663 at June 30, 1978.

GOVERNMENT SERVICES SAVINGS & LOAN, INC.

(Commitments)

The Company has issued commitments to make loans aggregating approximately $28,851,000 at March 31, 1979 which expire $18,196,000 in 1980, $5,935,000 in 1981 and $4,720,000 in 1982. Included in the above are $3,595,000 of commitments to make loans which will qualify for resale to the Federal National Mortgage Association (FNMA) or which will qualify for inclusion in pools to secure mortgage-backed securities which may be sold under guaranty by Government National Mortgage Association (GNMA). At March 31, 1979, the Company held firm commitments from FNMA and other investors to purchase $11,000,000 in loans.

GREAT WESTERN FINANCIAL CORPORATION

(Contingent Liabilities)

In the normal course of its business, the Company is named a defendant in various lawsuits. In the opinion of management, after consultation with outside legal counsel representing it in these lawsuits, the outcome of the actions currently pending will not have a material effect on the Company's financial position.

SKOKIE FEDERAL SAVINGS AND LOAN ASSOCIATION

(Commitments)

At June 30, 1978, the minimum rental commitments under all noncancellable operating leases for land and office space are as follows:

1979	$ 154,091
1980	132,571
1981	115,136
1982	90,343
1983	76,568
Thereafter through 2066	3,112,500
Total	$3,681,209

The terms of the land lease also require payment of all real estate taxes and assessments. Beginning in the years 1999 and 2032, annual rentals will be increased by an amount equal to the excess of 6-1/4% of the then appraised value of the land over $600,000. Rent expense for the years ended June 30, 1978 and June 30, 1977, amounted to $153,631 and $104,218 respectively.

The Association and its subsidiaries were committed to purchase or originate loans aggregating approximately $426,400,000 at June 30, 1978.

NORTHERN CALIFORNIA SAVINGS AND LOAN ASSOCIATION

(Commitments and Contingencies)

The Association is involved in routine litigation arising in the normal course of business. In addition, and together with many other financial institutions, the Association is involved in certain class action lawsuits relating to general real estate lending practices. While amounts claimed in the class action lawsuits are substantial, it is the opinion of management that no litigation to which the Association is a party will materially affect its consolidated financial statements.

SECTION F

Statement of Operations

Statement of operations title

As in the prior year, the reports generally referred to the statement presenting results of operations as either the "Statement of Operations," "Statement of Income" or the "Statement of Earnings." No distinct preference was shown to any particular title.

Table 29. Statement of Operations

	1978	1977
Reports in which the statement of operations was titled:		
Statement of operations	36%	40%
Statement of earnings	39	32
Statement of income	25	24
Other	—	4
	100%	100%

Statement of operations format and captions

Although there was some variation in the amount of detail presented in the various sections of the operating statements, the vast majority of the statements had subtotals for operating income, operating expenses, income before income taxes, and, where applicable, income before other items. Table 30 shows the number of captions used to detail the operating income and operating expenses.

Certain of the companies capitalized interest costs in connection with development of, and/or investments in, real estate. Approximately 5% (16% in 1977) of the reports disclosed the amount of interest capitalized during the year in the statement of operations, usually parenthetically. Several of the reports (27%) (6% in 1977) disclosed the capitalization of interest in a footnote. The percentage of companies capitalizing interest and not making disclosure, if any, could not be determined.

Table 30. Statements of Operations Format and Captions

	1978	1977
Reports in which the number of captions used to detail operating income was:		
Three or four	11%	8%
Five or six	52	64
Seven or eight	34	26
Nine or more	3	2
	100%	100%
Reports in which the number of captions used to detail expenses was:		
Two or three	34%	30%
Four or five	27	32
Six or seven	27	22
Eight or more	12	16
	100%	100%

	1978	1977
Reports in which expenses contained separate captions for:		
Interest on savings	98%	96%
Interest on borrowed funds	98	94
General and administrative	66	98
Provisions for losses	43	42
Compensation and employee benefits	32	32
Operation of real estate	11	14
Other captions	33	68

EXAMPLES Operating income section of the statement of operations

BUCKEYE FEDERAL SAVINGS AND LOAN ASSOCIATION

	December 31	
	1978 (In Thousands)	1977
Income:		
Interest on mortgage loans	$54,537	$44,807
Interest on other loans and contracts	4,235	3,171
Interest and dividends on investments	4,488	3,070
Loan fees and discounts	4,181	4,327
(Loss) on real estate joint ventures	(17)	(55)
Gain on sale of subsidiary	614	-
Net gain (loss) on sale of investments	(398)	121
Rental income	767	738
Other income	3,685	1,275
	$72,092	$57,354

PACIFIC COAST HOLDINGS, INC.

	December 31	
	1978	1977
Income:		
Interest on loans	$20,892,304	$17,592,371
Loan origination fees	1,310,252	1,425,464
Other loan fees and commissions	321,806	637,606
Interest and dividends on investments	1,520,902	960,001
Other income	260,180	283,242
	$24,305,444	$20,898,684

UPTOWN FEDERAL SAVINGS AND LOAN ASSOCIATION OF CHICAGO

	December 31	
	1978	1977
Income:		
Interest on loans	$25,034,477	$18,704,546
Loan fees	2,319,169	1,223,465
Interest and dividends on investments	1,739,195	1,036,261
Gain on sales of real estate (net of cost of sales: 1978--$2,799,113; 1977--$501,645)	694,372	154,301
Income from joint ventures	3,941,061	-
Insurance commissions	110,236	107,266
Other income	68,903	81,573
Total Income	$33,907,413	$21,307,412

MERCURY SAVINGS AND LOAN ASSOCIATION

	December 31	
	1978	1977
Revenues:		
Interest on loans	$36,699,446	$27,932,3516
Loan origination and other fees	6,274,127	5,501,166
Interest and dividends on investments	2,520,222	2,195,679
Real estate operations (Note 3)	3,166,511	2,487,746
Gains on sales of loans, net	495,106	1,481,359
Other income	668,500	883,778
	$49,823,912	$40,482,084

HERITAGE FINANCIAL CORPORATION

	December 31	
	1978	1977 (restated)
Income:		
Interest on loans	$16,020,364	$12,143,954
Loan and other fees	1,204,715	1,305,328
Interest and dividends on investments	1,021,518	705,536
Other	387,474	425,537
Total income	$18,634,071	$14,580,355

EXAMPLE Modified format statement of operations

CATALINA SAVINGS AND LOAN ASSOCIATION

	December 31	
	1978	1977
Investment revenue:		
First mortgage loans (including amortization of deferred loan fees)	$19,158,665	$13,726,838
Interest and dividends on investments	3,549,077	1,778,053
Interest on other loans	729,806	402,112
	23,437,548	15,907,003
Cost of money:		
Interest on savings accounts	15,890,339	11,058,436
Other interest expense	628,366	121,719
	16,518,705	11,180,155
Gross margin on investments	6,918,843	4,726,848
Other loan fees	169,688	107,665
Other income	31,459	17,721
	7,119,990	4,852,234

	December 31 1978	1977
General and administrative expenses:		
Salaries and employee benefits	1,696,417	1,245,082
Office occupancy and equipment expense	531,772	408,349
Advertising and promotion	258,320	179,959
Federal insurance premiums	167,500	103,032
Other	552,073	359,863
	3,206,082	2,296,285
	3,913,908	2,555,949
Gain (loss) on sale of mortgage loans and marketable securities	5,427	(70,788)
Provision for loss on loans	-	(10,000)
Gain (loss) on sale of office property and equipment--net	1,175	(16,143)
	6,602	(96,931)
Earnings before income taxes	3,920,510	2,459,018
Income taxes		
Current	1,024,000	331,576
Deferred	152,446	376,910
	1,176,446	708,486
Net earnings	$ 2,744,064	$ 1,750,532
Earnings per share of guaranty stock	$ 2.90	$ 1.89

EXAMPLES Expenses section of the statement of operations

BROADVIEW FINANCIAL CORPORATION

	December 31 1978	1977
Expenses:		
Cost of money--		
Interest on savings deposits	$ 68,114,291	$58,633,786
Interest on borrowed money	13,684,991	8,347,243
Total cost of money	$ 81,799,282	$66,981,029
Operating expenses--		
Compensation and related benefits	$ 7,977,776	$ 6,754,094
Taxes and assessments on deposits	3,841,436	2,919,858
Office occupancy and equipment expenses	4,301,312	3,721,063
Advertising and business development costs	1,710,056	1,605,023
Provision for loan and real estate owned losses	187,908	981,038
Other	2,261,056	2,204,942
Total operating expenses	$ 20,279,544	$18,186,018
Total expenses	$102,078,826	$85,167,047

FAR WEST FINANCIAL CORPORATION

	December 31 1978	1977
EXPENSES		
Interest		
Savings accounts	$35,333,081	$29,829,755
Federal Home Loan Bank advances	3,358,157	4,013,052
Mortgage-Backed bonds	1,918,872	239,971
Other	1,481,116	669,981
Less capitalized interest	(1,440,027)	(1,014,981)
	40,651,199	33,737,778
General and administrative	11,023,934	8,741,774
Reduction in loss reserves	(293,307)	(32,774)
Loss on sale of loans	2,571,640	134,389
	$53,953,466	$42,581,167

GIBRALTER FINANCIAL CORPORATION OF CALIFORNIA

	December 31 1978	1977
EXPENSES		
Interest		
Savings accounts	$163,191,000	$140,809,000
Federal Home Loan Bank borrowings	13,360,000	5,799,000
Securities sold under agreements to repurchase	3,438,000	919,000
Other	263,000	282,000
	$180,252,000	$147,809,000
General and administrative		
Salaries and related personnel costs	$ 15,795,000	$ 13,737,000
Premises and related personnel costs	8,678,000	7,203,000
Other operating expenses	10,129,000	8,406,000
	$ 34,602,000	$ 29,346,000
Provision for losses on loans and properties	600,000	799,000
	$215,454,000	$177,954,000

HERITAGE FINANCIAL CORPORATION

	December 31 1978	1977
EXPENSES:		
Interest on savings	$12,309,712	$ 9,263,524
Interest on borrowed money	1,211,580	580,322
General and administrative	2,810,413	2,155,035
Total expenses	$16,331,705	$11,998,881

FIRST LINCOLN FINANCIAL CORPORATION

	December 31 1978	 1977
Expenses:		
Interest on savings accounts	$30,177	$26,642
Interest on borrowings	1,621	876
Compensation and other employee expenses	4,048	3,338
Occupancy expense, net of rental income	1,779	1,671
Advertising	841	738
Other general and administrative expenses	2,521	2,303
	$40,987	$35,568

Deferred income taxes

As in the prior year, disclosure practices in reports of the companies relating to deferred income taxes and the reconciliation of effective and normal tax rates differed significantly. Ninety-eight percent of the companies made some disclosure regarding deferred income taxes. Table 31 shows the most common methods of disclosure used. The examples which follow are taken only from statements of operations and notes to financial statements. Examples of deferred income tax treatments in the statement of financial condition and statement of changes in financial position are presented in Sections E and H, respectively.

Table 31. Deferred Income Taxes

	1978	1977
Reports in which deferred income taxes were disclosed in the:		
Statements of financial condition, changes in financial position and notes to financial statements	27%	22%
Notes to financial statements and statement of changes in financial position	25	28
Statements of financial condition, operations, changes in financial position and notes to financial statements	16	26
Statements of financial conditon, operations, and notes to financial statements	9	4
Notes to financial statements only	7	4
Statements of operations and notes to financial statements	5	8
Other or no disclosures	11	8
	100%	100%

EXAMPLES Deferred income taxes

H.F. AHMANSON & COMPANY
(Statement of Operations)

	December 31 1978	1977
Provision for taxes on income	$70,945,000	$47,024,000

(Notes to Financial Statements)

Income Taxes

Home Savings has met certain requirements of the Internal Revenue Code which permit bad debt deductions (unrelated to the amount of losses actually anticipated and charged to earnings) based on a percentage of taxable income before such deduction. Included in restricted retained earnings of the Company at December 31, 1978 and 1977 are amounts of $510,000,000 and $453,000,000, respectively, which represent the accumulation of bad debt deductions for which no provision for Federal income taxes has been made. If in the future these amounts are used for any purpose other than to absorb losses on bad debts, a tax liability will be imposed on Home Savings on these amounts at the then current income tax rates.

The maximum annual bad debt deduction is being gradually reduced from 60% of otherwise taxable income in 1969 to 40% in 1979 (41% in 1978 and 42% in 1977). The bad debt deduction is subject to the minimum tax for tax preferences.

The Internal Revenue Service has proposed a consolidated return regulation which would reduce the allowable Federal bad debt deduction of Home Savings if in future years any other subsidiary included in the Company's consolidated Federal income tax return incurs a tax net operating loss. If this regulation is finally adopted, its effect on the net earnings of the Company will be entirely dependent on the future tax net operating losses, if any, incurred by such subsidiaries. Since it is not possible to forecast future tax net operating losses of these subsidiaries with any certainty, it is not possible to determine if this regulation will have a significant effect on future operations. If the regulation has been applicable to 1978 and 1977, net earnings of the Company would have been reduced by approximately $687,000 and $1,509,000 respectively. The Company does not agree with the underlying principles of such regulation and will consider challenging it if it becomes finalized.

The life insurance subsidiaries are allowed certain special deductions for Federal income tax purposes. These deductions are accumulated in a special tax memorandum account designated as "policyholders' surplus account." The amounts in this account could become subject to Federal income tax when dividends are paid therefrom, when the balance in the account exceeds certain prescribed limitations, or when a company ceases to be a life insurance company as defined in the Internal Revenue Code. The life insurance subsidiaries have accumulated policholders' surplus of approximately $15,197,000 which is included in restricted retained earnings at December 31, 1978 and which would be subject to Federal income tax at the then current income tax rate upon occurrence of any one of the above described events. No income tax has been provided on the policyholders' surplus account because the life insurance subsidiaries do not anticipate any such event which would require such a provision.

The investment tax credit (which is an immaterial amount in 1978 and 1977) is recorded by the flowthrough method which reduces the provision for Federal income tax in the year in which the credit is utilized.

Since 1969 the Company has filed consolidated Federal income tax returns with its subsidiaries other than the life insurance subsidiaries (which have filed separate consolidated returns since 1969).

	Year Ended December 31, 1978	1977
The provision for taxes on income consists of:		
Currently payable:		
Federal	$42,177,000	$22,226,000
State	18,231,000	12,929,000
	60,408,000	35,155,000
Deferred:		
Federal	7,281,000	8,308,000
State	3,256,000	3,561,000
	10,537,000	11,869,000
	$70,945,000	$47,024,000

Deferred taxes arise because some transactions affect the determination of accounting income in one reporting period and the computation of taxable income in a different reporting period. These transactions and the tax effect of each are as follows:

	Year Ended December 31, 1978	1977
Deferred insurance policy acquisition costs, currently deductible for tax purposes	$ 1,560,000	$ 2,721,000
Gain on sale of real estate recognized currently, deferred for tax purposes	1,555,000	2,513,000
Loan fee income recognized currently, deferred for tax purposes	5,751,000	12,479,000
Bond discount income recognized currently, deferred for tax purposes	579,000	657,000
Gain on sale of loans recognized currently, deferred for tax purposes (net of amortization)	7,042,000	1,612,000
Effect of allowable Federal bad debt deduction applied to certain timing differences (net of preference tax)	(3,139,000)	(4,570,000)
Deferred portion of state franchise tax, not currently deductible for Federal tax purposes	(3,490,000)	(2,236,000)
Miscellaneous items	679,000	(1,307,000)
Deferred taxes on income	$10,537,000	$11,869,000

Income taxes in the consolidated financial statements have been provided at an effective rate of 37.7% and 31.2% for 1978 and 1977, respectively. These rates are less than normal "expected" corporate rates for Federal income tax. The reasons for the differences and the tax effect of each are as follows:

	Year Ended December 31,			
	1978		1977	
Normal "expected" taxes at 48%	$90,424,000	48.0%	$72,297,000	48.0%
Increases (reductions) in taxes resulting from:				
Bad debt deduction based on a percentage of income	(28,635,000)	(15.2)	(24,603,000)	(16.3)
Minimum tax for tax preferences	2,543,000	1.4	1,993,000	1.3
State income tax, net of Federal income tax benefit	11,173,000	5.9	8,575,000	5.7
Settlement of contested income tax liabilities for prior years	-	-	(5,547,000)	(3.7)
Miscellaneous items	(4,560,000)	(2.4)	(5,691,000)	(3.8)
Provision for taxes on income	$70,945,000	37.7%	$47,024,000	31.2%

During 1977 an agreement with the Internal Revenue Service was reached resulting in the final determination of certain matters pertaining to savings and loan operations during open tax years through 1971. Based on a reevaluation of its tax liabilities, Home Savings recorded a credit of $5,547,000 to provision for taxes on income in the third quarter, 1977, reflecting the favorable settlement of contested tax liabilities for which provisions had been recorded in prior years.

DOWNEY SAVINGS AND LOAN ASSOCIATION
(Statement of Operations)

	December 31	
	1978	1977
Income taxes	$7,326,000	$5,186,000

(Notes to Financial Statements)

Income Taxes

Savings and loan associations that meet certain definitions and other conditions prescribed by the Internal Revenue Service are permitted to deduct, within limitations, earnings appropriated to tax bad debt reserves in computing taxable income. The Tax Reform Act of 1969 gradually reduces the deduction from 60% of taxable income in 1969 to 40% in 1979. The bad debt deduction, using the percentage of taxable income method, is limited to 41% of taxable income in 1978 and 42% of taxable income in 1977. Accordingly, no provision for Federal income taxes has been made for such bad debt deductions shown as appropriated retained earnings in the consolidated Statements of Stockholders' Equity. If in the future these amounts are used for any purpose other than that for which they were created, a tax liability will be imposed upon the Association at the then current Federal income tax rate.

The Federal income tax returns of the Association are subject to examination by the Internal Revenue Service for all years subsequent to 1976.

The Association uses the flow-through method of accounting for investment tax credits. The amounts involved are not significant.

Income tax expense is made up of the following components:

	Federal	State	Total
1978:			
Current	$3,911,000	$1,862,000	$5,773,000
Deferred	1,035,000	518,000	1,553,000
	$4,946,000	$2,380,000	$7,326,000
1977:			
Current	$2,517,000	$1,219,000	$3,736,000
Deferred	955,000	495,000	1,450,000
	$3,472,000	$1,714,000	$5,186,000

Deferred tax expense results from timing differences in the recognition of revenue and expense for tax and financial statement purposes. The sources of these differences and the tax effect of each are as follows:

	1978	1977
Loan fee income deferred for tax purposes	$2,445,000	$1,159,000
Revenue and expense recognized on the cash basis for tax purposes	107,000	872,000
Deferred servicing costs recognized for tax purposes	(90,000)	307,000
State income taxes	(272,000)	(305,000)
Effect of allowable Federal bad debt deduction applied to all differences, net of preference tax	(662,000)	(612,000)
Miscellaneous items	25,000	29,000
	$1,553,000	$1,450,000

A reconciliation of total income tax expense and the amount computed by applying the U.S. Federal income tax rate of 48% to earnings before income taxes follows:

	1978 Amount	%	1977 Amount	%
Computed "expected" tax expense	$9,279,000	48%	$6,685,000	48%
Increases (reductions) in taxes resulting from:				
Bad debt deduction based on percentage of income net of applicable preference tax	(2,935,000)	(15)	(2,251,000)	(16)
State income tax, net of Federal income tax benefit	1,237,000	6	891.000	6
Miscellaneous items	(255,000)	(1)	(139,000)	(1)
	$7,326,000	38%	$5,186,000	37%

NEVADA SAVINGS AND LOAN ASSOCIATION
(Statement of Operations)

	December 31 1978	1977
Provision for federal income taxes	$3,188,000	$2,186,000

(Notes to Financial Statements)

Federal Income Taxes:

Because the Association reports its income on the accrual basis of accounting for financial statement purposes but files its tax returns on a modified cash basis, certain items of income and expense have been shown in the financial statements of the Association in periods different from those in which they are reportable for income tax purposes. The bad debt deduction allowable to savings and loan associations was 42% in 1977 and 41% in 1978 and will decrease to 40% in 1979 and subsequent years. A preference tax of 15% (10% in 1977) is imposed on the approximate amount by which the bad debt deduction exceeds the current year's federal income tax.

Summary of provision for federal income taxes:

	Year ended December 31 1978	1977
Current	$1,107,000	$1,668,000
Deferred	2,081,000	518,000
	$3,188,000	$2,186,000

During 1976, the Association applied to the Internal Revenue Service for permission to change its method of reporting loan fees for tax purposes. The Internal Revenue Service has not yet acted upon this application. Should this change not be approved, there would be no effect on net earnings, but the portion of the provision for income taxes payable currently would increase by $981,000 (1978) and $344,000 (1977).

The components of deferred income tax expense resulting from timing differences in the recognition of revenue and expense for tax and financial statement purposes are as follows:

	Year ended December 31 1978	1977
Revenue and expense recognized on the accrual basis for financial statement purposes but on the modified cash basis for tax purposes	$ 397,000	$ (4,000)
Loan fees recognized for financial statement purposes in excess of those recognized for tax purposes	935,000	344,000
Interest income on Federal Savings and Loan Insurance Corporation secondary reserve recognized for financial statement purposes but deferred for tax purposes	(20,000)	(7,000)
Installment sale revenue recognized for financial statement purposes in excess of those recognized for tax purposes	702,000	
Interest income recognized for financial statement purposes in excess of that recognized for tax purposes	159,000	174,000
Accrual of warranties on real estate sold recognized for financial statement purposes	(89,000)	12,000
Miscellaneous items	(3,000)	(1,000)
Deferred income tax expense	$2,081,000	$518,000

The effective rate for tax expense in 1978 and 1977 is less than the federal corporate tax rate of 48%. The sources of these differences and the effect of each are summarized as follows:

	Year ended December 31			
	1978		1977	
	Amount	Percent of pre-tax income	Amount	Percent of pre-tax income
Computed "expected" tax expense	$5,093,000	48.0%	$3,623,000	48.0%
Reductions in taxes resulting from:				
Bad debt deduction based on a percentage of income, net of applicable preference tax	(1,888,000)	(17.8)	(1,418,000)	(18.8)
Miscellaneous items	(17,000)	(.2)	(19,000)	(.2)
Income tax expense	$3,188,000	30.0%	$2,186,000	29.0%

The Association's income tax returns have been examined by the Internal Revenue Service through 1975.

Earnings per share

All of the reports surveyed reported per share amounts for net income.

EXAMPLES Earnings per share

H.F. AHMANSON & COMPANY
(Statement of Operations)

	December 31	
	1978	1977
Net earnings per share (Note 8)	$5.13	$4.55

(Notes to Financial Statements)

Dividends and Net Earnings per Share

The computation of net earnings per share is based on the weighted average of shares outstanding during the years of 22,909,202 (1978) and 22,767,879 (1977); shares granted but unissued under the Company's stock option plan have been excluded from such computation as the effect is not materially dilutive.

FINANCIAL FEDERATION, INC.
(Statement of Operations)

	December 31	
	1978	1977
Net earnings per share	$6.24	$5.24

(Summary of Significant Accounting Policies)

Per share information: Per share information is based on the weighted average shares outstanding during each period. Outstanding stock options have been excluded from earnings per share calculations because the effect of inclusion would not be materially dilutive.

GREAT WESTERN FINANCIAL CORPORATION
(Statement of Operations)

	December 31	
	1978	1977
Earnings per share based upon average shares outstanding each year	$6.01	$4.95
Earnings per share based upon average shares outstanding each year restated for 3 for 2 stock split declared January 16, 1979 (Note 17)	$4.01	$3.30

(Notes to Financial Statements)

Subsequent Event

On January 16, 1979 a 3 for 2 split of the Company's capital stock was declared. The split, in the form of a 50% stock dividend will be distributed March 16, 1979 to stockholders of record on February 16, 1979. The par value of the approximately 7,460,000 additional shares to be issued will be transferred from additional capital to capital stock and the cash to be paid in lieu of fractional shares will be charged against additional capital.

SKOKIE FEDERAL SAVINGS AND LOAN ASSOCIATION
(Statement of Operations)

	June 30 1978	1977
Net income per share (pro forma for 1977)	$5.64	$4.65
Net income since conversion (May 31, 1977 to June 30, 1977)		$ .35

(Notes to Financial Statements)

Net Income Per Share

Net income per share since conversion was computed by dividing net income since conversion ($125,596) by the 360,000 shares outstanding.

Pro forma net income per share for the year ended June 30, 1977 was computed assuming the Common Stock issued on conversion was issued and outstanding since July 1, 1976 and the aggregate net proceeds of $3,288,666 were invested in GNMA mortgage-backed securities. Pro forma net income gives effect to assumed interest income on such investment, less applicable federal income taxes.

SECTION G

Statement of Stockholders' Equity Accounts

Statement of stockholders' equity accounts

Ninety-eight percent of the reports surveyed this year included as part of the financial statements a statement describing the changes in stockholders' equity. Table 32 indicates a preference for "statement of stockholders' (or shareholders') equity" as a title.

Entries to the statement of stockholders' equity accounts

The vast majority of the survey reports showed individual stockholders' equity accounts for the current and immediately preceding years and disclosed various items. Some of the more common items are shown in Table 33, with the respective percentages of occurrence found in the reports surveyed. The examples which follow exhibit most of the types of disclosures shown in the table.

Table 32. Statement of Stockholders' Equity Accounts

	1978	1977
Reports in which the statement of stockholders' equity was titled:		
Statement of stockholders' or shareholders' equity	80%	76%
Other	18	22
None	2	2
	100%	100%

Table 33. Entries to Statements of Stockholders' Equity Accounts

	1978	1977
Reports in which statement of stockholders' equity contained separate items for:		
Net income	100%	100%
Cash dividends	82	74
Issuance of additional capital stock—stock option plans	57	44
Treasury stock transactions	11	18
Capital stock—sales	2	16
Stock dividends	11	14
Stock splits	11	4
Conversion to stock association	2	2
Number of reports included in this table	44	49

EXAMPLE Statement of stockholders' equity title

FIRST FINANCIAL OF VIRGINIA CORPORATION

Consolidated Statements of Stockholders'Equity

CANYON SAVINGS AND LOAN ASSOCIATION

Consolidated Statements of Changes in Stockholders' Equity

BROADVIEW FINANCIAL CORPORATION

Consolidated Statements of Retained Income

FAR WEST FINANCIAL CORPORATION

Consolidated Statements of Shareholders' Equity

EXAMPLES Statements of stockholders' equity accounts

CATALINA SAVINGS AND LOAN ASSOCIATION

	Guaranty stock (notes 7 and 9)		Capital surplus (notes 7 and 8)		Retained earnings (notes 7 and 8)			
	Shares	Amount	Paid-in	Arising from stock dividends	Appropriated to general reserves	Unappropriated	Market value of 5% stock dividend	Total stockholders' equity
Balance, December 31, 1976	841,338	$841,338	785,536	1,115,867	442,643	2,578,013	(210,335)	5,553,062
5% stock dividend	42,067	42,067	-	273,436	-	-	(315,503)	-
Cash dividend, $.03 per share	-	-	-	-	-	(25,241)	-	(25,241)
Cash dividend, $.05 per share	-	-	-	-	-	(44,171)	-	(44,171)
Transfer to Federal insurance reserve	-	-	-	-	1,834,791	(1,834,791)	-	-
Net earnings	-	-	-	-	-	1,540,197	210,335	1,750,532
Balance, December 31, 1977	883,405	$883,405	785,536	1,389,303	2,277,434	2,214,007	(315,503)	7,234,182
Stock options exercised	19,845	19,845	96,764	-	-	-	-	116,609
Cash dividend, $.03 per share	-	-	-	-	-	(27,084)	-	27,084)
5% stock dividend	45,162	45,162	-	476,459	-	-	(521,621)	-
Cash dividend, $.09 per share	-	-	-	-	-	(8 ,330)	-	(85,330)
Transfer to Federal insurance reserve	-	-	-	-	1,459,407	(1,459,407)	-	-
Net earnings	-	-	-	-	-	2,428,561	315,503	2,744,064
Balance, December 31, 1978	948,412	$948,412	882,300	1,865,762	3,736,841	3,070,747	(521,621)	9,982,441

IMPERIAL CORPORATION OF AMERICA

	Common Stock	Capital in Excess of Par Value	Retained Earnings		
			Restricted (Note 3)	Unrestricted	Total
Balances at December 31, 1976	$14,970,000	$69,910,000	$162,355,000	$60,549,000	$222,904,000
Issuance of 131,816 shares of treasury stock for conversion of $2,000,000 of 6-1/2% Convertible Subordinated Notes	-	1,979,000	-	-	-
Cash dividends paid to stockholders ($.45 per share)	-	-	-	(6,185,000)	(6,185,000)
Net earnings	-	-	34,339,000	21,846,000	56,185,000
Balances at December 31, 1977	14,970,000	71,889,000	196,694,000	76,210,000	272,904,000
Issuance of 98,862 shares of treasury stock for conversion of $1,500,000 of 6-1/2% Convertible Subordinated Notes	-	1,485,000	-	-	-
Cash dividends paid to stockholders ($.80 per share)	-	-	-	(11,100,000)	(11,100,000)
Net earnings	-	-	39,866,000	28,894,000	68,760,000
Balances at December 31, 1978	$14,970,000	$73,374,000	$236,560,000	$94,004,000	$330,564,000

NEVADA SAVINGS AND LOAN ASSOCIATION

		Permanent Capital Stock		Capital Surplus		Retained Earnings			
	Total Stockholders' Equity	Shares	Amount	Paid-in	Arising from stock dividends	Stock dividends at market value	Appropriated to general reserves	Unappropriated	Total retained earnings
BALANCE, December 31, 1976	$14,144,000	1,267,316	$1,014,000	$3,479,000	$673,000	$(809,000)	$2,812,000	$ 6,975,000	$ 8,978,000
Net earnings for the year	5,363,000							5,363,000	5,363,000
Appropriations to reserves							1,568,000	(1,568,000)	
Five-for-four stock split, net of 610 shares redeemed upon conversion at $.64 par value		321,124							
Cash in lieu of fractional shares	(9,000)							(9,000)	(9,000)
Exercise of stock options	100,000	19,629	15,000	85,000					
Cash dividends, $.52-1/2 per share	(723,000)							(723,000)	(723,000)
BALANCE, December 31, 1977	18,875,000	1,608,069	1,029,000	3,564,000	673,000	(809,000)	4,380,000	10,038,000	13,609,000
Net earnings for the year	7,423,000							7,423,000	7,423,000
Appropriations to reserves							2,000,000	(2,000,000)	
Five-for-four stock split, net of 621 shares redeemed upon conversion at $.512 par value		405,081							
Cash in lieu of fractional shares	(9,000)							(9,000)	(9,000)
Exercise of stock options	62,000	14,740	9,000	53,000					
Cash dividends, $.72-1/2 per share	(1,245,000)							(1,245,000)	(1,245,000)
BALANCE, December 31, 1978	$25,106,000	2,027,890	$1,038,000	$3,617,000	$673,000	$(809,000)	$6,380,000	$14,207,000	$19,778,000

GOLDEN WEST FINANCIAL CORPORATION

	Preferred Stock	Common Stock	Paid-In Surplus	Appropriated Retained Earnings	Unappropriated Retained Earnings
Balance at January 1, 1977	$19,466,150	$ 4,641,493	$ 1,483,985	$52,874,646	$24,494,276
Conversion of preferred stock to common stock	(95,556)	12,690	82,866	-0-	-0-
Stock issued upon exercise of stock options:					
Preferred--743 shares	5,595	-0-	6,766	-0-	-0-
Common--27,850 shares (pre-split)	-0-	27,850	289,831	-0-	-0-
Net earnings	-0-	-0-	-0-	-0-	27,976,013
Net earnings of associations appropriated in compliance with federal income tax law or federal and state regulations	-0-	-0-	-0-	14,865,000	(14,865,000)
Less dividends on preferred stock ($.78 per share)	-0-	-0-	-0-	-0-	(2,011,480)
Less dividends on common stock ($.27 per share)	-0-	-0-	-0-	-0-	(2,521,177)
Balance at December 31, 1977	9,376,189	4,652,033	1,863,470	67,739,648	33,062,652
Common stock issued upon exercise of stock options--13,000 shares (pre-split)	-0-	13,000	135,450	-0-	-0-
Conversion of preferred stock to common stock	(19,259,534)	2,567,614	16,701,920	-0-	-0-
Purchase of common stock (Note 1)	-0-	(275,000)	(5,681,250)	-0-	-0-
Redemption of preferred stock (Note 1)	(116,658)	-0-	(22,402)	-0-	-0-
Common stock split effected by means of a 100% stock dividend (Note 1)	-0-	6,977,647	(6,977,647)	-0-	-0-
Common stock issued upon exercise of stock options--5,000 shares	-0-	5,000	30,075	-0-	-0-
Net earnings	-0-	-0-	-0-	-0-	35,048,198
Net earnings of associations appropriated in compliance with federal income tax law or federal and state regulations	-0-	-0-	-0-	19,642,000	(19,642,000)
Less dividends on preferred stock ($.39 per share)	-0-	-0-	-0-	-0-	(661,757)
Less dividends on common stock ($.35 per share)	-0-	-0-	-0-	-0-	(4,317,354)
Balance at December 31, 1978	$ -0-	$13,960,294	$ 5,749,616	$87,381,648	$43,489,739

See notes to financial statements.

SECTION H

Statement of Changes in Financial Position

Statement of changes in financial position

All of the reports of the companies surveyed presented a statement of changes in financial position. The title used to describe the statement was "Statement of Changes in Financial Position".

Most of the reports used the self-balancing format. All of the reports contained a separate total of funds provided from operations. Separate disclosures were generally made of net income and the other items providing funds.

Table 34. Statement of Changes in Financial Position

	1978	1977
Reports in which the statement of changes in financial position was:		
Self-balancing	91%	86%
Not self-balancing	9	14
	100%	100%

Table 35. Disclosures of Funds Provided from Operations

	1978	1977
Reports which separately disclosed:		
Net income	100%	100%
Depreciation and amortization	98	96
Deferred taxes	82	82
Interest credited to savings accounts	50	52
Provisions for loan losses	43	46

Note: There were numerous other nonrecurring sub-captions of funds provided from operations depending on the particular circumstances of the various companies.

EXAMPLES Funds provided from operations (Taken from statement of changes in financial position)

EQUITABLE SAVINGS & LOAN ASSOCIATION

	December 31	
	1978	1977
Funds Provided:		
Net earnings	$10,839,424	$ 9,654,619
Items which do not use (provide) cash, exclusive of increases in sundry accruals and amortization of sundry prepaids:		
Interest on savings deposits	60,334,031	52,763,965
Depreciation and amortization of property, equipment and leasehold improvements	1,057,794	897,751
Provision for losses on loans and properties	488,573	1,111,435
Amortization of intangible assets	489,515	436,811
Deferred income taxes	(469,404)	(464,632)
Funds provided from operations	$72,739,933	$64,399,949

WESCO FINANCIAL CORPORATION

	December 31	
	1978	1977
Funds provided:		
Net earnings	$ 8,481,000	$ 6,449,000
Charges (credits) to earnings not requiring (providing) funds:		
Depreciation and amortization	511,000	439,000
Interest on savings deposits credited to savings accounts	24,054,000	21,670,000
FSLIC primary premium transferred from secondary reserve	532,000	108,000
Deferred income taxes (note 9)	197,000	(99,000)
Undistributed earnings of affiliate	196,000	(76,000)
Amortization of fees and discounts	(249,000)	(210,000)
Recognition of unrealized profit on real property	(890,000)	(426,000)
Interest income on FSLIC secondary reserve	(283,000)	(302,000)
Funds provided from operations	$32,549,000	$27,553,000

EXAMPLES Statement of changes in financial position format--not self-balancing

H.F. AHMANSON & COMPANY

	December 31	
	1978	1977
Funds provided:		
From operations:		
Net earnings	$117,438,000	$103,595,000
Charges (credits) to earnings not requiring (providing) funds:		
Depreciation and amortization	9,591,000	6,337,000
Interest credited to savings deposits	455,371,000	391,214,000
Losses and provisions for losses on real estate, loans and securities	2,446,000	240,000
Deferred taxes on income (Note 7)	10,537,000	11,860,000
Amortization of loan fees and discounts (Note 10)	(3,986,000)	(4,083,000)
Amortization of discounts on investments in debt obligations	(9,388,000)	(12,706,000)
Amortization of prepaid Federal Savings and Loan Insurance Corporation premiums	6,328,000	5,503,000
Accrued income on prepaid Federal Savings and Loan Insurance Corporation premiums	(1,814,000)	(1,945,000)
Increase in accrued interest receivable	(17,915,000)	(9,571,000)
Increase in future life policy benefits (Note 2)	3,069,000	3,687,000
Increase (decrease) in unearned insurance premiums (note 2)	(51,000)	10,754,000
Decrease in deferred acquisition costs (Note 2)	(1,482,000)	(6,659,000)
Provision for litigation settlement (Note 16)	-	8,250,000
Increase (decrease) in liability for current income taxes	8,341,000	(6,578,000)
Funds provided from operations	$578,485,000	$499,898,000

NEVADA SAVINGS AND LOAN ASSOCIATION

	December 31	
	1978	1977*
Source of funds:		
Net earnings	$ 7,423,000	$ 5,363,000
Noncash charges to earnings:		
Increase in deferred taxes	2,081,000	518,000
Depreciation and amortization	271,000	197,000
	9,775,000	6,078,000
Principal repayments of loans	84,036,000	82,872,000
Net increase in savings accounts	69,884,000	60,556,000
Additions to short-term notes payable	38,396,000	1,708,000
Advances from Federal Home Loan Bank	35,000,000	10,000,000
Sales of real estate	24,888,000	17,717,000
Increase in other liabilities and accrued expenses and income taxes payable	5,910,000	2,461,000
Increase (decrease) in deferred income	209,000	763,000
Other, net	395,000	230,000
	268,493,000	182,385,000
Application of funds:		
Loan originations and purchases, net of change in undisbursed loan funds	180,657,000	141,648,000
Repayment of short-term notes	30,706,000	340,000
Acquisitions of and improvements to real estate	28,549,000	24,197,000
Repayment of advances from Federal Home Loan Bank	8,608,000	10,008,000
Investment in Federal Home Loan Bank stock	2,195,000	187,000
Payment of cash dividends on capital stock	1,254,000	723,000
Additions to Association premises and equipment	505,000	639,000
	252,474,000	177,742,000
Net increase in cash and securities	$ 16,019,000	$ 4,643,000

*Reclassified to conform to 1978 classification.

EXAMPLES Statement of changes in financial position format--self-balancing

PRUDENTIAL FEDERAL SAVINGS AND LOAN ASSOCIATION

	December 31 1978	1977
Funds Were Obtained From:		
Operations:		
Net income	$ 6,782,087	$ 5,301,208
Add items which did not use funds:		
Interest credited to savings accounts	25,519,039	22,902,300
Depreciation and amortization	785,818	881,621
Deferred income taxes	(157,845)	91,339
Amortization of fees and discounts	(672,284)	(526,427)
Income from FSLIC secondary reserve--net	6,514	(12,258)
Total from operations	32,263,329	28,637,783
Loan principal collections	121,263,329	122,208,165
Sales of loans	45,668,264	20,787,456
Net increase in savings accounts before interest credits	6,262,224	21,549,291
Advances from Federal Home Loan Bank	55,000,000	13,251,000
Mortgage notes and other borrowings		1,863,964
Sale of real estate owned	5,126,245	3,211,113
Decrease in investments		28,590,552
Decrease in cash	1,601,489	
Decrease in certificates of deposit	14,201,408	810,215
Increase in advances from borrowers for taxes and insurance		469,095
Increase in accrued interest payable	1,544,569	377,286
Increase in current income taxes payable	1,367,700	
Loan fees deferred	995,674	714,437
Other	616,329	268,012
Total	$286,451,664	$242,738,369

	December 31 1978	1977
Funds were used for:		
Mortgage loan originations:		
Construction (net of change in undisbursed portion)	$ 99,587,106	$ 78,522,494
Existing properties	103,891,532	98,434,774
Refinance	18,47[illegible],493	35,396,799
Government insured loans	1,822,200	2,219,400
Purchase of participation and whole loans	11,373,669	7,389,747
GNMA certificates		4,951,385
Other loan originations	10,870,148	6,851,747
Increase in cash		2,841,206
Increase in investments	2,714,811	
Repayment of Federal Home Loan Bank advances	12,120,000	
Acquisition of real estate owned	896,485	1,337,563
Purchase of property and equipment	414,758	804,759
Increase in accrued interest receivable	169,689	819,422
Decrease in current income taxes payable		542,936
Repayments of mortgage notes and other borrowings	18,470,081	406,638
Purchase of Federal Home Loan Bank Capital stock	3,666,700	770,900
Decrease in advances from borrowers for taxes and insurance	707,132	
Cash dividends paid	1,020,876	816,540
Other	255,984	632,059
Total	$286,451,664	$242,738,369

GREAT WESTERN FINANCIAL CORPORATION

	December 31			
	1978		1977	
Funds were provided by:				
Loan principal payments--				
Monthly payments	$ 127,150,000		$ 146,082,000	
Payoffs	822,460,000	$ 949,610,000	865,531,000	$1,011,613,000
Increase in savings accounts--				
Net deposits	185,699,000		604,875,000	
Interest added to savings accounts	352,997,000	538,696,000	315,324,000	920,199,000
Sales of loans (Note 3)		376,559,000		447,508,000
Sales of real estate		45,132,000		10,173,000
Borrowings from FHLB		262,424,000		44,665,000
Issuance of mortgage-backed bonds		-		100,000,000
Securities sold under agreements to repurchase		4,257,000		135,690,000
Funds provided by operations--				
Net earnings	89,680,000		73,819,000	
Charges (credits) to earnings not requiring funds:				
Provision for estimated losses	2,000,000		2,000,000	
Deferred income taxes	15,400,000		10,400,000	
Other	11,710,000	118,790,000	4,289,000	90,508,000
		$2,295,468,000		$2,760,356,000
Funds were used for:				
Loan disbursements--				
Loans on existing properties	$1,889,494,000		$2,185,095,000	
Construction loans	187,960,000		177,063,000	
Loan purchases	16,645,000		9,146,000	
Consumer loans	28,010,000		33,419,000	
Total new loan volume	2,102,109,000		2,404,723,000	
Decrease (increase) in undisbursed loan funds	(18,224,000)	$2,083,885,000	(19,297,000)	$2,385,426,000
Repayment to (borrowings from) commercial bank		50,000,000		(50,000,000)
Dividends paid to stockholders		14,926,000		10,438,000
Other		58,315,000		34,183,000
Increase in cash and securities		88,342,000		380,309,000
		$2,225,468,000		$2,760,356,000

SECTION I

Conversions—Mutual to Stock Form of Organization

Three of the survey companies converted from mutual savings and loan associations to capital stock associations during 1977 (none during 1978), pursuant to Part 563b of the Rules and Regulations for Insurance of Accounts. All three of the companies in 1977 were federally chartered.

EXAMPLES Disclosure of conversion from mutual to stock form of organization

SKOKIE FEDERAL SAVINGS AND LOAN ASSOCIATION
(Notes to Financial Statements)

Conversion to Stock Association

On November 15, 1976, the Association's Board of Directors approved a Plan of Conversion whereby the Association would be converted from a federal mutual savings and loan association to a federal capital stock association. This plan subsequently was approved by the Federal Home Loan Bank, the Federal Savings and Loan Insurance Corporation and the members of the Association. The plan provided for amending the Association's charter and bylaws to authorize 400,000 shares of no-par value Common Stock, stated value $.01 per share. On May 31, 1977, the Association issued 360,000 shares of Common Stock, to effect the conversion.

Restrictions on Retained Earnings

Pursuant to the Rules of the Federal Savings and Loan Insurance Corporation, after the conversion to a federal capital stock association, the Association established a liquidation account in an amount equal to its total retained income as of December 31, 1976 ($4,663,470). In the event of future complete liquidation of the Association (and only in such event) the savings account holders as of July 31, 1976 who continue to maintain their savings accounts will be entitled to receive a distribution from the liquidation account. This account is proportionately reduced for any reduction in the eligible holders' savings accounts. The balance in the liquidation account at July 31, 1978, most recent determination date, was $2,494,389. The Association may not declare or pay a cash dividend if such dividends would reduce the net worth of the Association below the amount required for the liquidation account.

UPTOWN FEDERAL SAVINGS AND LOAN ASSOCIATION
OF CHICAGO
(Notes to Financial Statements)
Conversion to Stock Association

On April 27, 1977, pursuant to approval by members of the Association and regulatory authorities, the Association issued 300,000 shares of common stock to effect the conversion from a federal mutual savings and loan association to a federal capital stock association.

Restrictions On Retained Income

Pursuant to the Rules of the Federal Savings and Loan Insurance Corporation (FSLIC), after the conversion to a federal capital stock association, the Association established a liquidation account in an amount equal to its total retained income at December 31, 1976. In the event of future complete liquidation of the Association (and only in such event), an eligible account holder on December 31, 1975 who continues to maintain his savings account shall be entitled to receive a distribution from the liquidation account. The total amount of the liquidation account will be decreased as the balances of eligible account holders have been or will be reduced on annual determination dates. The balance in the liquidation account at December 31, 1978, the most recent determination date, was $2,965,047. The Association may not declare or pay a cash dividend if such dividends would reduce the net worth of the Association below the amount required for the liquidation account.

Without the approval of the FSLIC, an insured mutual association which converts to stock form may not, for a period of ten years following conversion, pay cash dividends on its capital stock in excess of the greater of two-thirds of its current net income, or the average of its net income for not more than its last three fiscal years. In addition, dividends on capital stock may not be paid if such payment would cause its net worth to fall below the required levels. At December 31, 1978, approximately $3,000,000 of retained income is available for declaration of cash dividends.

SECTION J

Filings with the SEC on Form 10-K

Relationship of SEC to savings and loan holding companies

Regulation S-X prescribes the form and content of financial statements to be included in filings with the SEC. Article 5 of this Regulation prescribes financial statement format and required supplementary schedules for commercial and industrial companies. While this Article applies to savings and loan holding companies, literal compliance with the prescribed format is not required, and their financial statements may follow the conventional format common to the savings and loan industry.

Also of concern to savings and loan holding companies are Article 3, relating to rules of general application, including certain required footnote disclosures, and Article 4, relating to consolidated and combined financial statements.

Financial statements presented

Instruction 1 of Instructions to Financial Statements prescribes the conditions for inclusion or omission of separate financial statements of a registrant (parent company) in filings of annual reports on Forms 10-K. Seventeen of eighteen survey reports in 1978 (eighteen of twenty in 1977) included separate financial statements of the registrant (parent company) and consolidated financial statements of the registrant and consolidated subsidiaries, in the annual report on Form 10-K.

Forms 10-K were published in the annual reports to stockholders by seven (eight in 1977) of the eighteen surveyed.

EXAMPLES Financial statements of savings and loan holding companies (parent company only)

FIRST LINCOLN FINANCIAL CORPORATION

Parent Company Financial Information (First Lincoln Financial Corporation)

Statements of Financial Condition

Assets

	1978	1977
	($000's omitted)	
Cash	$ 795	576
Loans receivable	3	3
Property and equipment	20	21
Due from affiliates, current	2,004	2,040
Other assets	152	45
Investment in consolidated subsidiaries	40,748	36,514
	$43,722	39,299

Liabilities And Stockholders' Equity

	1978	1977
	($000's omitted)	
Accounts payable and accrued expenses	$ 19	25
Taxes on income, including deferred taxes of $2,009,000 ($1,006,000 in 1977)	2,136	2,259
Total Liabilities	2,155	2,284
Stockholders' equity:		
Common stock, without par value:		
Authorized 5,000,000 shares; issued at stated value, 2,656,163 shares in 1978 and 1977	2,656	2,656
Capital surplus:		
Additions paid-in	7,714	7,726
Arising from stock dividends	5,900	5,900
Retained earnings:		
Appropriated to general reserves	16,219	16,907
Unappropriated	16,515	11,310
Less market value of stock dividends	(6,562)	(6,562)

	1978	1977
	($000's omitted)	
Less treasury stock, at cost 306,991 shares (323,638 in 1977)	(875)	(922)
Total stockholders' equity	41,567	37,015
	$43,722	39,299

Statements of Operations

Years ended December 31, 1978 and 1977

	1978	1977
	($000's omitted)	
Income:		
Investment income	$ 35	26
Other	140	196
	175	222
Expenses:		
Compensation and other employee benefits	82	76
Occupancy expense	4	11
Other general and administrative expenses	96	116
	182	203
Earnings (loss) before taxes on income	$ (7)	19
Taxes on income	(79)	(29)
Earnings before equity in net earnings of subsidiaries	72	48
Equity in net earnings of subsidiaries	4,445	3,701
Net earnings, allocated to unappropriated retained earnings	$4,517	3,749
Earning per share of Common Stock	$ 1.89	1.58

Statements Of Changes In Financial Position

Years ended December 31, 1978 and 1977

	1978	1977
	($000's omitted)	
Funds provided:		
Net earnings	$ 4,517	3,749
Charges (credits) to earnings not affecting funds:		
Depreciation	1	2
Deferred taxes on income	1,003	138
Equity in earnings of subsidiaries	(4,445)	(3,701)
Other items	2	3
Funds provided from operations	1,078	191
Sale of Lincoln Title Company	311	-
Sale of real estate held for sale or investment	-	6
Sale of treasury stock	35	155
Decrease in amounts due from affiliates	36	-
Other funds provided	36	334
Total funds provided	$ 1,496	686
Funds used:		
Increase in cash, certificates of deposit and funds due from banks	219	134
Increase in other assets	107	38
Increase in amounts due from affiliates	-	508
Purchase of treasury stock	-	3
Other funds used	1,170	3
Total funds used	$ 1,496	686

HOMESTEAD FINANCIAL CORPORATION

(Parent Company Only)
Statements of Financial Condition
December 31, 1978 and 1977

	1978	1977
Assets		
Cash	$ 27,648	$ 9,036
Income tax refund receivable	41,730	29,374
Investment and advances:		
Subsidiaries (Schedules III and IV) (Notes 9 and 14)	16,708,473	12,987,882
Joint venture (Schedules III and IV)	203,651	184,146
Office premises and equipment	13,901	16,934
Prepaid expenses and other assets	16,089	25,961
Total	$17,011,492	$13,253,333
Liabilities And Stock-Holders' Equity		
Notes payable to bank (note 8)		$ 1,350,000
Advances from subsidiary company	$ 396,000	296,000
Accounts payable and accrued liabilities	-	28,016
Deferred income taxes	21,956	28,459
Total liabilities	417,956	1,702,475

	1978	1977
Commitments and contingencies (Notes 12 and 13)		
Stockholders' equity:		
Common stock par value $.75 per shares Authorized, 5,000,000 shares. Issued and outstanding: 1978, 2,353,639 shares; 1977, 2,353,077 shares (Notes 11 and 15)	1,176,820	784,359
Additional paid-in capital	351,062	350,166
Retained earnings--substantially restricted (Note 10)	15,065,654	10,416,333
Total stockholders' equity	16,593,536	11,550,858
Total	$17,011,492	$13,253,333

Statements of Income

For The Years Ended December 31, 1978 and 1977

	1978	1977
Income		
Interest and dividends from investments	$ 21,182	$ 112,044
Fees and other income (Note 14)	70	26,144
Total income	21,252	138,188
Expenses		
General and administrative (Schedule XVI)	145,238	119,555
Interest on advances and notes	23,904	104,264
Total expenses	169,142	223,819
Loss before income tax credit and equity in earnings of subsidiaries	147,890	85,631
Income tax credit	(68,800)	(39,100)
Loss before equity in earnings of subsidiaries	79,090	46,531
Equity in earnings of subsidiaries (Note 10 and Schedule III)	5,120,591	3,376,355
Net income	$5,041,501	$3,329,824
Net income per share (Notes 1 and 15)	$ 2.14	$ 1.42

Statements of Changes in Financial Position

For the Years Ended December 31, 1978 and 1977

	1978	1977
Source of funds:		
From operations:		
Net income	$ 5,041,501	$ 3,329,824
Equity in earnings of subsidiaries	(5,120,591)	(3,376,355)
Funds used by operations	(79,090)	(46,531)
Collection of subordinated debenture from subsidiary	1,400,000	-
Advances from subsidiary companies	100,000	45,000
Increase (decrease) in accounts payable and accrued liabilities	(28,016)	21,529
Total	1,392,894	(9,998)
Application of funds:		
Repayment of Notes Payable	1,350,000	-
Income taxes	48,233	47,615
Other--net	(23,951)	5,960
Total	1,374,282	53,575
Increase (decrease) in cash	$ 18,612	$ (33,577)

Incorporation of financial statements by reference

Incorporation of financial statements by reference to a registration statement, proxy statement, or annual report to stockholders is permitted, and is generally acceptable if the information incorporated by reference substantially meets the requirements of the form being filed.

Table 36 shows that six (ten in 1977) of the survey reports incorporated financial statements in Form 10-K by reference.

Table 36. Incorporation of Financial Statements by Reference

	1978	1977
Reports which included:		
Financial statements incorporated by reference	6	10
Financial statements and schedules in report without incorporation by reference	12	10
	18	20

Supplementary notes to financial statements

As Table 37 indicates, 44% of the Forms 10-K reviewed in 1978 (40% in 1977) included supplementary notes to financial statements.

Table 37. Inclusion of Supplementary Notes to Financial Statements

	1978	1977
Reports which:		
Included supplementary notes	8	8
Did not include supplementary notes	10	12
	18	20
Reports containing:		
One or two supplementary notes	6	5
Three or four supplementary notes	2	3
	8	8

Table 38. Topics Discussed in Supplementary Notes to Financial Statements

	1978	1977
Reports including supplementary notes discussing:		
Stock options	6	6
Office premises and equipment	2	3
Federal income taxes	3	2
Supplementary profit and loss information	—	2
Other subjects	2	4

EXAMPLES Supplementary notes to financial statements--references where applicable are to Regulation S-X

FIRST CHARTER FINANCIAL CORPORATION

Taxes on Income:

Income tax expense is made up of the following components:

	1978	1977
Federal:		
Current tax expense	$38,732,000	$30,029,000
Deferred tax expense	3,400,000	7,466,000
State:		
Current tax expense	19,639,000	15,539,000
Deferred tax expense	1,367,000	2,695,000
	$63,138,000	$55,729,000

Deferred tax expense results from timing differences in the recognition of revenue and expense for tax and financial statement purposes. The sources of these differences in 1978 and 1977 and the tax effect of each were as follows:

	1978	1977
Interest income and loan fees deferred for tax purposes but included in financial statement income	$4,954,000	$ 9,455,000
Difference in accounting methods--accrual for financial statements, cash basis for tax accounting	535,000	3,468,000
State tax effects of the above timing differences	1,367,000	2,695,000
Bad debt deduction attributable to timing differences, other than state tax effects thereon listed above, net of applicable preference tax	(2,382,000)	(5,167,000)
Miscellaneous	293,000	(290,000)
Total deferred federal and state taxes on income	$4,767,000	$10,161,000

Total taxes on income amounted to $63,138,000 (an effective rate of 37.47%) in 1978 and $55,729,000 (an effective rate of 36.54%) in 1977. Applying the federal income tax rate of 48% to income before tax would result in a tax expense of $80,873,000 (1978) and $73,210,000 (1977). The explanation of this difference as a percentage of pre-tax income is as follows:

	Percent of pre-tax income	
	1978	1977
Computed expected tax	48.00%	48.00%
Increase (decrease) in taxes resulting from:		
State taxes, net of federal benefit	8.76	8.46
Bad debt deduction	(18.79)	(18.38)
Miscellaneous credits	(.50)	(1.54)
Actual tax rate	37.47%	36.54%

FINANCIAL CORPORATION OF SANTA BARBARA

Pension, Retirement and Stock Option Plans (Additional Information):

A noncontributory pension and retirement plan is in effect for the Company's subsidiary Association's officers and employees. Pension costs are funded under the aggregate cost method. There are no unfunded past service costs in connection with the plan. The cost to the Association for the plan was $203,000 and $177,000 in 1978 and 1977, respectively.

A summary of outstanding capital stock options at December 31, 1978, is as follows:

Year granted	Shares	Years exercisable	Option prices at date of grant		Market prices at date of grant (1)	
			Per share	Total	Per share	Total
1974	9,976	1975-1979	$2.667	$ 27,000	$2.687 to $6.50	$ 27,000
1975	3,350	1976-1980	$4.187 to $5.375	16,000	$4.187 to $5.375	16,000
1976	56,500	1977-1986	$5.525 to $6.50	325,000	$6.50	353,000
1977	85,500	1978-1987	$7.385 to $10.38	756,000	$8.687 to $10.38	814,000
1978	38,250	1979-1988	$10.38	398,000	$10.38	398,000
	193,576			$1,522,000		$1,608,000

(1) In 1976 and 1977, options of 14,000 shares and 21,000 shares, respectively, were granted at 85% of market in accordance with the Company's nonqualified stock option plan.

Options that became exercisable during the years ended December 31, 1978 and 1977, are as follows:

Period became exercisable	Shares	Option prices		Market prices at exercisable date	
		Per share	Total	Per share	Total
1977	50,628	$2.687 to $6.50	$268,000	$9.563 to $10.81	$ 524,000
1978	93,358	$2.687 to $10.38	$772,000	$9.687 to $17.375	$1,125,000

Options that were exercised during the years ended December 31, 1978 and 1977, are as follows:

Period exercised	Shares	Option prices		Market prices at exercise date	
		Per share	Total	Per share	Total
1977	20,486	$2.687 to $6.50	$90,000	$8.562 to $10.875	$216,000
1978	19,906	$2.687 to $8.687	$89,000	$9.375 to $16.00	$256,000

Transactions with respect to options are recorded in the accounts only when options are exercised. At that time, the proceeds are credited to capital stock at par value and to paid-in surplus for the remainder. Options canceled or not exercised become available for future grants.

Item 2. Summary of operations content

Table 39 indicates that all of the survey reports (in both 1978 and 1977) included only consolidated information in the summary of operations.

Item 2. Form of statement of operations

While Item 2 provides for a summary of operations, Table 40 shows that 12 of the 18 companies presented complete statements of operations (16 of 20 in 1977).

Table 39. Item 2. Summary of Operations Content

	1978	1977
Reports in which Item 2 included:		
Summary of operations—consolidated only	18	20
Summary of operations—consolidated—incorporated by reference	—	—
	18	20

Table 40. Item 2. Form of Statements of Operations Included

	1978	1977
Reports in which the statements of operations included in Item 2 were:		
Included in their entirety	12	16
Summarized	6	4
	18	20

EXAMPLES Item 2. Summary of operations

FIRST S&L SHARES INC.

	Year ended June 30 1978	1977	1976 (000's Omitted)	1975	1974
Revenues	$69,092	$57,201	$49,641	$42,819	$38,530
Expenses	61,864	53,015	49,019	44,632	34,982
Earnings (loss) before income taxes	7,228	4,186	622	(1,813)	3,548
Taxes on income	2,350	1,227	380	106	1,036
Net earnings (loss)(1)	$ 4,878	$ 2,959	$ 242	$(1,919)	$ 2,512
Net earnings (loss) per weighted average number of common shares outstanding (2)	$4.95	$3.01	$.25	$(1.95)	$2.53

(1) Cash dividends declared were: 1974--$474,095; 1975--$383,208; 1977--$49,128; and 1978--$688,981, which amounted to 48¢, 39¢, 5¢ and 70¢ per share, respectively.

(2) The computations of earnings per share were based on average shares outstanding during each period. Average shares used in per share computations during each of the five years were: 1974--991,909; 1975--982,585; 1976--982,576; 1977--982,728; and 1978--986,269.

BROADVIEW FINANCIAL CORPORATION

	Year Ended December 31,				
	1974	1975	1976	1977	1978
Revenues:					
Interest on loans	$37,415,796	$49,727,910	$63,861,000	$83,582,026	$102,175,842
Interest on securities	8,744,372	9,680,454	12,607,039	8,615,371	9,216,949
Loan and other fees	1,958,355	1,647,901	3,402,980	5,165,023	5,541,322
Net gain (loss) on sales of GNMA pass-throughs, other securities and real estate investments	32,721	155,384	630,535	679,037	(357,844)
Other income	591,764	741,146	870,317	963,246	865,467
Total revenues	$48,743,008	$61,952,795	$81,371,871	$99,004,703	$117,441,736
Expenses:					
Interest on savings deposits	$28,325,714	$37,841,348	$49,616,108	$58,633,786	$ 68,114,291
Interest on borrowed money	11,069,859	9,606,448	8,088,912	8,347,243	13,684,991
Operating expenses	7,301,151	10,909,694	15,667,171	18,186,018	20,279,544
Total expenses	$46,696,724	$58,357,490	$73,372,191	$85,167,047	$102,078,826
INCOME BEFORE FEDERAL INCOME TAXES	$ 2,046,284	$ 3,595,305	$ 7,999,680	$13,837,656	$ 15,362,910
PROVISION FOR FEDERAL INCOME TAXES	529,000	520,000	1,857,000	3,738,000	4,286,000
NET INCOME	$ 1,517,284	$ 3,075,305	$ 6,142,680	$10,099,656	$ 11,076,910

GENERAL OHIO S&L CORPORATION

	Year Ended December 31				
	1978	1977	1976	1975	1974
Interest and other revenues	$48,327,000	$35,785,000	$35,511,000	$24,644,000	$21,402,000
Interest expense	35,144,000	25,845,000	22,430,000	18,407,000	15,708,000
Other costs and expenses	9,163,000	6,967,000	5,783,000	4,538,000	4,039,000
Federal income taxes	1,132,000	790,000	510,000	361,000	367,000
Net earnings	2,888,000	2,183,000	1,788,000	1,338,000	1,288,000
Earnings attributable to common shares	$ 2,783,000	$ 2,077,000	$ 1,682,000	$ 1,295,000	$ 1,245,000
Average number of common shares outstanding(a):					
Primary	1,223,000	1,225,000	1,240,500	1,215,000	1,215,000
Fully diluted	1,320,000	1,325,000	1,340,000		
Earnings per common share(a):					
Primary(b)	$ 2.28	$ 1.70	$ 1.36	$ 1.07	$ 1.02
Fully diluted	$ 2.15	$ 1.61	$ 1.30		
Cash dividend per common share	$ .24	$ .21	$ .16	$ .13	$ .12

Notes begin on following page.

GREAT WESTERN FINANCIAL CORPORATION

The following Consolidated Summary of Operations should be read in conjunction with the Consolidated Financial Statements of the Company and its subsidiaries for the two years ended December 31, 1978, filed as a part of this report.

FIVE-YEAR CONSOLIDATED SUMMARY OF OPERATIONS

	Year Ended December 31				
($000 omitted)	1978	1977	1976	1975	1974
INCOME:					
Interest on R.E. loans	$ 585,390	$ 487,209	$ 391,719	$ 336,407	$ 317,814
Loan origination fees	21,791	26,084	20,685	8,902	5,707
Other loan fees	8,474	8,457	6,188	5,588	6,365
Income from consumer loan operations	11,882	9,830	6,828	4,057	3,610
Income from mortgage banking activities	1,476	1,734	780	760	756
Income from real estate operations	8,805	4,641	2,433	3,004	2,581
Income from U.S. Government and other securities	74,103	51,541	45,402	42,225	41,516
Other income	2,640	3,879	3,088	2,418	2,197
	714,561	593,374	477,123	403,361	380,546
EXPENSES:					
Interest	497,528	410,931	339,396	300,837	281,210
Operating and administrative	67,153	60,824	54,302	50,431	42,112
Provision for estimated losses on loans and real estate	2,000	2,000	3,000	10,000	2,400
Other	-	-	1,000	4,310	-
Federal and state taxes on income	58,200	45,800	30,200	14,900	21,300
	624,881	519,555	427,898	380,478	347,022
Earnings before extra-ordinary item	89,680	73,819	49,225	22,883	33,524
Extraordinary item*	-	-	-	-	1,750
Net earnings	$ 89,680	$ 73,819	$ 49,225	$ 22,883	$ 35,274
Per share** earnings based upon average shares outstanding each year:					
Earnings before extra-ordinary item	$ 4.01	$ 3.30	$ 2.20	$ 1.02	$ 1.50
Extraordinary item	-	-	-	-	.07
Net earnings	$ 4.01	$ 3.30	$ 2.20	$ 1.02	$ 1.57
Average shares outstanding**	22,384,709	22,362,728	22,350,543	22,371,837	22,380,561
Per share dividends**	$ .67	$ .47	$ .33	$ .29	$ .28

*Federal income tax reduction from carry-forward of operating losses of pooled companies prior to acquisition.

**Per share and average shares outstanding data give effect to a 3 for 2 stock split distributed March 16, 1979. Common stock equivalents and other potentially dilutive shares are excluded from the computation of per share earnings because they have no material effect in any year presented.

FIRST CHARTER FINANCIAL CORPORATION

The following consolidated statement of operations of First Charter and its subsidiaries for the five years ended December 31, 1978 is not reported on herein by the independent certified public accountants and should be read in conjunction with the consolidated financial statements of First Charter and subsidiaries and notes thereto included elsewhere in this Form 10-K.

CONSOLIDATED STATEMENT OF OPERATIONS

	Year ended December 31				
	1974	1975	1976	1977	1978
REVENUES:					
Interest on loans	$296,549,000	$335,782,000	$420,956,000	$534,027,000	$634,251,000
Loan origination fees	4,134,000	8,659,000	15,508,000	20,639 000	15,801,000
Other loan fees	4,854,000	6,919,000	10,057,000	12,956,000	14,720,000
Interest and dividends on investments	30,462,000	24,516,000	28,509,000	32,747,000	44,689,000
Net gain (loss) from real estate operations	(1,254,000)	924,000	2,675,000	2,620,000	1,113,000
Commissions, sundry fees and miscellaneous income	1,229,000	1,383,000	1,544,000	2,543,000	2,126,000
	335,974,000	378,183,000	479,249,000	605,532,000	712,762,000
EXPENSES:					
Interest on savings accounts	203,555,000	236,482,000	291,931,000	354,349,000	398,250,000
Interest on borrowings	35,164,000	30,586,000	36,966,000	55,166,000	98,155,000
	238,719,000	267,070,000	328,897,000	409,515,000	496,405,000
General and administrative	27,312,000	31,506,000	36,993,000	43,497,000	47,872,000
	266,031,000	298,578,000	365,890,000	453,012,000	544,277,000
EARNINGS BEFORE STATE AND FEDERAL TAXES ON INCOME	69,943,000	79,605,000	113,359,000	152,520,000	168,485,000
CALIFORNIA FRANCHISE TAXES	9,281,000	10,094,000	14,300,000	18,234,000	21,006,000
FEDERAL TAXES ON INCOME	16,794,000	19,292,000	27,555,000	37,495,000	42,132,000
NET EARNINGS	$ 43,868,000	$ 50,219,000	$ 71,504,000	$ 96,791,000	$105,347,000
ALLOCATION OF NET EARNINGS:					
Appropriated retained earnings	$ 28,884,000	$ 29,211,000	$ 43,204,000	$ 58,175,000	$ 63,205,000
Unappropriated retained earnings	14,984,000	21,[illegible],000	28,300,000	38,616,000	42,142,000
NET EARNINGS	$ 43,868,000	$ 50,219,000	$ 71,504,000	$ 96,791,000	$105,347,000
NET EARNINGS PER SHARE (Note A)	$1.48	$1.70	$2.42	$3.27	$3.55
STOCK DIVIDENDS	50	50	50		
CASH DIVIDENDS				$.55	$.90

See notes to consolidated summary of operations

Note A--Per Share Amounts:

The computation of per share amounts have been made for each of the above years on the basis of 29,710,335 shares for 1978, 27,641,989 shares for 1977 and 29,586,703 shares for all prior years. The exercise of outstanding stock options would not have a material effect on earnings per share. See Note 9 of "Notes to Consolidated Financial Statements."

Schedules filed with financial statements

The schedules to be included in the annual reports of savings and loan holding companies on Form 10-K are specified in Rule 5-04 of Regulation S-X. It should be noted that specific schedules may be omitted if the requirements for inclusion are not met or if the information required is provided elsewhere.

Table 41. Schedules Filed with Financial Statements

	1978		1977	
	Parent Only	Consolidated	Parent Only	Consolidated
Reports containing the following schedules as part of financial statements and schedules:				
I Marketable Securities—Other Security Investments	—	1	—	4
II Amounts Receivable from Underwriters, Promoters, Directors, Officers, Employees, and Principal Holders (other than affiliates) of Equity Securities of the Person and its Affiliates	—	2	—	1
III Investment in, Equity in Earnings of, and Dividends Received from Affiliates and Other Persons	8	6	10	4
IV Indebtedness of Affiliates and Other Persons—Not Current	—	—	1	—
VII Intangible Assets, Deferred Research and Development Expenses, Preoperating Expenses and Similar Deferrals	—	1	—	3
XII Valuation and Qualifying Accounts and Reserves	4	11	3	11
XIII Capital Shares	—	—	—	1
XV Supplementary Income Statement Information	—	1	—	1
XVI Supplementary Income Statement Information	3	6	4	7

TRANSOHIO FINANCIAL CORPORATION

SCHEDULE III--INVESTMENTS IN, EQUITY IN EARNINGS OF, AND DIVIDENDS RECEIVED FROM AFFILIATES AND OTHER PERSONS
Two Years Ended December 31, 1977 and 1978

	Balance at Beginning of Period				Additions		Deductions	Balance at End of Period		
	Par Value	Shares	Percent of Total Outstanding	Amount in Dollars	Equity taken up in earnings (losses) of affiliates, other persons for the period	Other	Distribution of earnings by persons in which earnings (losses) were taken up	Number of Shares	Percent of total out-standing	Amount in Dollars
Year ended December 31, 1977:										
Affiliated Savings and Loans:										
The Akron Savings and Loan Company, Common Stock	$100	99,995	99.99	$33,002,990	$ 5,276,522		$1,529,786	99,995	99.99	36,753,726
The United Savings Association, Common Stock	100	1,894	100.00	16,297,498	2,816,188		727,997	1,894	100.00	18,385,689
Cincinnati Savings Association, Common Stock	5	28,456	100.00	2,208,806	217,475		83,092	23,456	100.00	2,343,189
The Union Savings Association, Common Stock	25	22,500	100.00	18,937,514	4,701,958		1,063,000	22,500	100.00	22,576,472
				$70,446,808	$13,012,143	-0-	$3,399,875			$80,059,076
Year ended December 31, 1978:										
Affiliated Savings and Loans:										
The Akron Savings and Loan Company, Common Stock	$100	99,995	99.99	$36,763,726	$ 6,097,392		$1,554,813	99,995	99.99	$41,296,305
The United Savings Association, Common Stock	100	1,894	100.00	18,385,689	3,263,733		759,002	1,894	100.00	20,890,470
Cincinnati Savings Association, Common Stock	5	28,456	100.00	2,343,189	318,337		91,913	28,456	100.00	2,569,613
The Union Savings Association, Common Stock	25	22,500	100.00	22,576,472	6,436,522		1,883,960	22,900	100.00	27,918,044
				$80,059,076	$16,114,984	-0-	$3,449,678			$92,674,382

H.F. AHMANSON & COMPANY

(Parent Company Only) Schedule III
Investment In, Equity In Earnings Of, And Dividends
Received From Affiliates And Other Persons

Year Ended December 31, 1977

Column A	Column B		Column C		Column D		Column E		Column F
	Balance at Beginning of Period		Additions		Deductions		Balance at End of Period		
Name of Issuer and Description of Investment	Number of Shares	Amount in Dollars	Equity Taken up in Earnings (Losses) of Affiliates and Other Persons for the Period	Other	Distribution of Earnings by Persons in which Earnings (Losses) Were Taken up	Other	Number of Shares	Amount in Dollars	Dividends Received During the Period from Investments Not Accounted for by the Equity Method
Subsidiaries:									
Commerce Service Corporation--Capital Stock	90(100%)	$ 1,163,000	$ 290,000	$ -	$ -	$ -	50(100%)	$ 1,453,000	$ -
Galaxy, Inc.--Capital Stock	50(100%)	92,000	-	-	-	-	50(100%)	92,000	-
Home Savings and Loan Association--Guarantee Stock	69,370(99.7%)	502,421,000	95,228,000	-	19,354,000(1)	-	69,370(99.7%)	578,295,000	-
National American Insurance Company--Capital Stock	20,000(100%)	19,188,000	2,540,000	-	-	-	20,000(100%)	21,728,000	-
Oakshire Corporation--Common Stock	10,000(100%)	5,472,000	(513,000)	954,000(2)	-	-	10,000(100%)	5,913,000	-
National American Title Insurance Company--Capital Stock	25,000(100%)	1,194,000	57,000	-	-	-	25,000(100%)	1,251,000	-
Serrano Reconveyance Company--Capital Stock	5,000(100%)	125,000	327,000	-	338,000(1)	-	5,000(100%)	114,000	-
National American Life Insurance Company of California--Common Stock	2,500(100%)	19,081,000	1,767,000	-	-	-	2,500(100%)	20,848,000	-

Year Ended December 31, 1977

Column A	Column B		Column C		Column D		Column E		Column F
	Balance at Beginning of Period		Additions		Deductions		Balance at End of Period		
Name of Issuer and Description of Investment	Number of Shares	Amount in Dollars	Equity Taken up in Earnings (Losses) of Affiliates and Other Persons for the Period	Other	Distribution of Earnings by Persons in which Earnings (Losses) Were Taken up	Other	Number of Shares	Amount in Dollars	Dividends Received During the Period from Investments Not Accounted for by the Equity Method
National American Insurance Company of New York--Capital Stock	150,000(100%)	$ 2,980,000	$ 99,000	$ -	$ -	$ -	150,000(100%)	$ 3,079,000	$ -
The Stuyvesant Insurance Company--Capital Stock	590,000(100%)	7,335,000	1,815,000	-	-	-	590,000(100%)	9,150,000	-
Stuyvesant Life Insurance Company--Capital Stock	29,110(19.4%)	3,504,000	1,815,000	-	-	-	29,110(19.4%)	4,402,000	-
Ahmanson Trust Company--Capital Stock	5,000(100%)	4,056,000	(425,000)	-	-	-	5,000(100%)	3,631,000	-
Total subsidiaries		$566,611,000	$102,083,000	$954,000	$19,592,000	$ -		$649,956,000	$ -

---

(1) Cash dividends from subsidiaries.

(2) Capital contribution of cash.

Investment In, Equity In Earnings Of, And Dividends Received From Affiliates And Other Persons

Year Ended December 31, 1978

Column A	Column B		Column C		Column D		Column E		Column F
	Balance at Beginning of Period		Additions		Deductions		Balance at End of Period		
Name of Issuer and Description of Investment	Number of Shares	Amount in Dollars	Equity Taken up in Earnings (Losses) of Affiliates and Other Persons for the Period	Other	Distribution of Earnings by Persons in which Earnings (Losses) Were Taken up	Other	Number of Shares	Amount in Dollars	Dividends Received During the Period from Investments Not Accounted for by the Equity Method
Subsidiaries:									
Commerce Service Corporation--Capital Stock	50(100%)	$ 1,453,000	$ 304,000	$ -	$ 1,000,000(1)	$ -	50(100%)	$ 757,000	$ -
Galaxy, Inc.--Capital Stock	50(100%)	92,000		-		-	50(100%)	92,000	-
Home Savings and Loan Association Guarantee Stock	69,370(99.7%)	578,295,000	107,011,000		26,153,000(1)	-	69,370(99.7%)	659,153,000	-
National American Insurance Company--Capital Stock	20,000(100%)	21,728,000	2,081,000	-	-	-	20,000(100%)	23,809,000	-
Oakshire Corporation--Common Stock	10,000(100%)	5,913,000	(397,000)	-	-	-	10,000(100%)	5,516,000	-
National American Title Insurance Company--Capital Stock	25,000(100%)	1,251,000	(722,000)	-	-	-	25,000(100%)	529,000	-
Serrano Reconveyance Company--Capital Stock	5,000(100%)	114,000	303,000	-	310,000(1)	-	5,000(100%)	107,000	-
National American Life Insurance Company of California--Common Stock	2,500(100%)	20,548,000	3,111,000	-	-	-	2,500(100%)	23,959,000	-

Year Ended December 31, 1978

Column A	Column B		Column C		Column D		Column E		Column F
	Balance at Beginning of Period		Additions		Deductions		Balance at End of Period		
Name of Issuer and Description of Investment	Number of Shares	Amount in Dollars	Equity Taken up in Earnings (Losses) of Affiliates and Other Persons for the Period	Other	Distribution of Earnings by Persons in which Earnings (Losses) Were Taken up	Other	Number of Shares	Amount in Dollars	Dividends Received During the Period from Investments Not Accounted for by the Equity Method
National American Insurance Company of New York--Capital Stock	150,000(100%)	$ 3,079,000	$ 1,177,000	$12,750,000(2)	$ -	$ -	150,000(100%)	$ 17,006,000	$ -
The Stuyvesant Insurance Company--Capital Stock	590,000(100%)	9,150,000	1,725,000	(10,875,000)(2)	-	-	- (-)	-	-
Stuyvesant Life Insurance Company--Capital Stock	29,110(19.4%)	4,402,000	252,000	(617,000)(2)	-	-	29,110(19.4%)	4,037,000	-
Ahmanson Capital Stock Trust Company--Capital Stock	5,000(100%)	3,631,000	37,000	-	-	-	5,000(100%)	3,668,000	-
Equity Security Valuation Reserve	-	-	-	(2,864,000)(3)	-	-	-	(2,864,000)	-
Total subsidiaries		$649,956,000	$114,882,000	$(1,606,000)	$27,463,000	$ -		$735,769,000	$ -

---

(1) Cash dividends from subsidiaries.

(2) Reflects changes in capitalization as a result of parent company's sale of The Stuyvesant Insurance Company and the related transfer of the insurance operations from Stuyvesant to the National American Insurance Company of New York.

(3) Marketable equity securities valuation adjustment in consolidation, net of tax effect.

GOLDEN WEST FINANCIAL CORPORATION

SCHEDULE XVI--SUPPLEMENTARY PROFIT AND LOSS INFORMATION

Column A	Column B 1978	 1977
Consolidated:		
Charged to profit and loss:		
Maintenance and repairs	$1,536,916	$1,204,944
Depreciation and amortization	$2,451,220	$2,278,087
Taxes, other than taxes on income:		
Property taxes	$ 714,107	$ 817,808
Other taxes and licenses	$1,079,545	$ 966,326
Rents	$2,031,302	$1,994,789
Management and service contract fees	$ 63,967	$ 96,100
Advertising costs	$2,599,548	$2,282,717
Company:		
Charged to profit and loss:		
Maintenance and repairs	$ -0-	$ -0-
Amortization	$ 64,148	$ 64,145
Taxes, other than taxes on income:		
Property taxes	$ 225	$ 588
Other taxes	$ 7,691	$ 10,084
Rents	$ 20,058	$ 6,302
Management and service contract fees	$ -0-	$ -0-
Advertising costs	$ 28,955	$ 23,707

FIRST CHARTER FINANCIAL CORPORATION

SCHEDULE XVI--SUPPLEMENTARY INCOME STATEMENT INFORMATION

YEARS ENDED DECEMBER 31, 1978 AND 1977

Column A Item	Column B Charged to costs and expenses 1978	 1977
Consolidated:		
Maintenance and repairs	$1,309,000	$1,134,000
Depreciation and amortization	$2,344,000	$1,963,000
Taxes, other than taxes on income:		
Payroll taxes	$1,756,000	$1,572,000
Property taxes	991,000	1,199,000
Other taxes	1,124,000	1,060,000
Total taxes	$3,871,000	$3,831,000
Rents	$1,047,000	$ 881,000
Advertising	$2,835,000	$3,204,000
First Charter Financial Corporation:		
Maintenance and repairs	$ -	$ 8,000
Depreciation and amortization	$ 10,000	$ 12,000
Taxes, other than taxes on income:		
Payroll taxes	$ 126,000	$ 123,000
Property taxes	[illegible],000	5,000
Total taxes	$ 141,000	$ 128,000
Rents	$ 208,000	$ 169,000

FINANCIAL CORPORATION OF SANTA BARBARA

SCHEDULE I--MARKETABLE SECURITIES

Name of issuer and title of each issue	Number of shares in units--principal amount of bonds and notes	Cost of each issue	Market value of each issue at balance sheet date	Amount at which each security issue carried in the balance sheet
YEAR ENDED DECEMBER 31, 1978:				
United States Government and agencies	$94,500,000	$94,517,000	$91,331,000	$94,517,000
YEAR ENDED DECEMBER 31, 1977:				
United States Government and agencies	$61,125,000	$61,229,000	$60,433,000	$61,229,000

IMPERIAL CORPORATION OF AMERICA

VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
TWO YEARS ENDED DECEMBER 31, 1978

		Schedule XII
	Consolidated Allowance for Losses	Unconsolidated Allowance for Losses
Balances at December 31, 1976(a)	$13,614,000	$ 753,000
Provision for year charged to income (net)	316,000	-
Provision for year on investment in subsidiaries	-	1,230,000
Losses charged against all allowances	(1,190,000)	-
Balances at December 31, 1977(b)	12,740,000	1,983,000
Provision for year charged to income (net)	(1,107,000)	-
Provision for year on investment in subsidiaries	-	960,000
Losses charged against all allowances	(110,000)	-
Balances at December 31, 1978(c)	$11,523,000	$2,943,000

		Schedule XII
	Consolidated Allowance for Losses	Unconsolidated Allowance for Losses
(a) Allowance for estimated losses:		
On loans	$ 4,351,000	$ -
On real estate	8,970,000	-
On office premises and equipment	198,000	-
On other assets	95,000	3,000
On investment in subsidiaries	-	750,000
	$13,614,000	$ 753,000
(b) Allowance for estimated losses:		
On loans	$ 5,468,000	$ -
On real estate	7,052,000	-
On office premises and equipment	126,000	-
On other assets	94,000	3,000
On investment in subsidiaries	-	1,980,000
	$12,740,000	$1,983,000
(c) Allowance for estimated losses:		
On loans	$ 6,584,000	$ -
On real estate	4,717,000	-
On office premises and equipment	126,000	-
On other assets	96,000	3,000
On investment in subsidiaries	-	2,940,000
	$11,923,000	$2,943,000

Computation of earnings per share

Instructions to Item 2, Summary of Operations, prescribe that an exhibit ". . . setting forth in reasonable detail the computation of per share earnings, unless the computation is clearly set forth in answer to this item" shall be filed. An exhibit detailing the computation of earnings was filed for two of the 20 survey reports in the 1978 survey (none in the 1979 survey).

APPENDIX

Survey Company List

Following is an alphabetical listing of the savings and loans (or holding companies with savings and loans) whose annual reports to stockholders were included in this survey. Those companies whose names have an asterisk (*) following them were also included in the survey of companies filing with the Securities and Exchange Commission on Form 10-K. Pages upon which excerpts from the companies' annual reports may be found are indicated following the name.

Ahmanson, H. F. & Company*, 41, 58, 61, 68, 83
Alamo Savings Association, 49
American Savings and Loan Association of Florida, 7, 24, 40, 52

Bass Financial Corporation, 20, 48, 50
Broadview Financial Corporation*, 28, 36, 48, 56, 63, 78
Buckeye Federal Savings and Loan Association, 12, 38, 55

Canyon Savings and Loan Association, 40, 41, 63
Catalina Savings and Loan Association, 48, 52, 55, 64

Downey Savings and Loan Association, 46, 59

Equitable Savings & Loan Association, 7, 19, 29, 50, 67

Far West Financial Corporation, 8, 35, 48, 56, 63
Fidelity Financial Corporation*, 17, 30, 44
Financial Corporation of Santa Barbara*, 18, 52, 76, 87
Financial Federation, Inc.*, 6, 61
First Charter Financial Corporation*, 8, 46, 75, 80, 87
First Financial of Virginia Corporation, 63
First Lincoln Financial Corporation*, 23, 42, 50, 57, 72
First S&L Shares, Inc.*, 43, 51, 52, 77
First Texas Financial Corporation*, 23, 31

General Ohio S&L Corporation*, 13, 35, 78
Gibraltar Financial Corporation of California*, 26, 36, 39, 56
Golden West Financial Corporation*, 50, 66, 87
Government Services Savings & Loan, Inc., 4, 25, 48, 53
Great Western Financial Corporation*, 31, 53, 61, 69, 79
Guarantee Financial Corporation of California, 24, 27, 51

Hawthorne Financial Corporation, 34, 35
Heritage Financial Corporation, 24, 55, 56
Homestead Financial Corporation*, 73

Imperial Corporation of America*, 23, 29, 42, 64, 88

Mercury Savings and Loan Association, 45, 55

Nevada Savings and Loan Association, 60, 65, 70
Northern California Savings and Loan Association, 48, 53

Oregon Trail Savings and Loan Association, 25, 30

Pacific Coast Holdings, Inc., 48, 55
Progressive Savings and Loan Association, 35, 49
Prudential Federal Savings and Loan Association*, 13, 35, 68

Skokie Federal Savings and Loan Association, 48, 53, 62, 71
Southwestern Group Financial, Inc., 11, 12

Transohio Financial Corporation*, 51, 82

United Financial Corporation of California, 26, 45
University Savings Association, 23, 32
Uptown Federal Savings and Loan Association of Chicago, 40, 55, 71

Wesco Financial Corporation, 24, 36, 41, 67
Western Financial Corporation*, 12, 25, 33, 46

Ernst & Whinney
1980 Financial Reporting Trends
Motor Carriers

A survey of motor carrier industry operating
results and financial reporting practices as disclosed
in 1979 published annual reports.

E&W No. T58013

Other Ernst & Whinney Financial Reporting Trends publications:

Banking 1980
Fire & Casualty Insurance 1980
Life Insurance 1980
Savings and Loan 1980

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Foreword

This year's edition provides a source of information on current motor carrier financial data and financial reporting practices as disclosed in published 1979 annual reports to shareholders and Form 10-K's filed with the Securities and Exchange Commission. The survey is descriptive, not analytical; no recommendations are made with respect to the form and content of annual reports.

This publication describes reporting practices unique to the motor carrier industry as well as other reporting practices that affect the financial statements of motor carriers.

The list of companies included in the survey (page 136) includes a cross-reference showing the pages that contain excerpts from each company's annual stockholders report or Form 10-K.

Ernst & Whinney Transportation Committee, 1980.

SECTION A

General

Introduction

Survey Methods 1979 published annual shareholders reports were requested from publicly-held motor carriers and holding companies with significant motor carrier subsidiaries. The information contained herein was summarized from the 43 reports received. The companies' names are shown on page 136.

Certain tables for operating data have been segregated into separate tabulations for companies with and without significant noncarrier operations. Data relating to motor carrier revenues was available either in the financial statements, business segment footnote, or supplementary financial data. For companies with significant noncarrier operations, identifiable motor carrier assets were obtained from the business segment footnote, where available. While several conglomerates disclosed the contribution made to income by motor carrier operations either before administrative charges or before income taxes, the contribution to net income was generally not disclosed.

A summary of the consolidation practices of the motor carriers, including those with significant noncarrier operations, shows that the reports generally are prepared on a consolidated basis.

	Subsidiary Reporting	
	Consolidated	"One-Line" Equity Consolidation
Common carrier with no significant noncarrier operations	21	2*
Common carrier with significant noncarrier operations (10% to 50% of revenues from noncarrier operations)	9	4*
Noncarrier company with common carrier operations (more than 50% of revenues from noncarrier operations)	3	1**
Other	***	

---

*All motor carrier operations consolidated, but insurance subsidiary, finance subsidiary and some 20-50% owned subsidiaries reported on one-line equity basis.

**All motor carrier operations consolidated except some 20-50% owned subsidiaries reported on one-line equity basis.

***Three of the surveyed companies have no affiliate operations and, therefore, were excluded from the above tabulation.

Surveyed Companies Table 1 summarizes selected financial data for fiscal year 1979. The data was accumulated from the separate financial statements of the companies included in the survey. Table 2 indicates where the shares of the 43 surveyed companies are traded.

TABLE 1. FINANCIAL DATA FOR SURVEYED COMPANIES (in thousands of dollars)

	Primary Carrier Companies	Companies With Significant Noncarrier Operations	Total Surveyed Companies
Current assets	$ 835,744	$ 3,290,975	$ 4,126,719
Total assets	2,444,665	10,351,553	12,796,218
Current liabilities	682,597	2,651,556	3,334,153
Long-term debt	439,955	3,113,749	3,553,704
Shareholders' equity	942,960	3,372,342	4,315,302
Revenues	4,864,060	5,556,520*	10,420,580
Net income	137,478	593,229	730,707

*Includes only carrier operating revenues.

TABLE 2. WHERE SHARES ARE TRADED

Number of companies included in survey whose shares are traded* on:

New York Stock Exchange	15
American Stock Exchange	5
Pacific Stock Exchange	6
Midwest Stock Exchange	3
Over the counter	20

*Certain companies are traded on more than one exchange.

Limitations of Survey Data Financial reporting practices of motor carrier companies and holding companies with motor carrier operations are diverse and do not readily lend themselves to precise classification. As a result, assumptions, conventions, and interpretations were necessary to reduce the data to meaningful summaries.

While the data and examples contained in the survey have been checked, no responsibility is assumed or implied for the reliability of such information.

The statistics shown in the tables and the examples of report presentation are not presented as recommended accounting or disclosure practices; they are presented as a matter of information or illustration only.

Examples from company annual reports included in this survey were chosen to illustrate specific accounting or disclosure practices. Such examples have been taken out of context and may have been edited to eliminate material not specifically related to the accounting or disclosure practice being illustrated.

Accounting practices

The motor carrier industry is regulated by the Interstate Commerce Commission (ICC or the Commission) and, accordingly, the industry's accounting practices and reporting trends reflect such regulatory influence. During recent years, the ICC has adopted various accounting regulations and amended others, thereby substantially reducing the difference between generally accepted accounting principles and ICC accounting practices. See Section C ("Current ICC Developments") for a discussion of changes occurring during the past year and their impact on accounting and reporting practices.

General report characteristics

Size of Report and Space Devoted to Basic Financial Statements Table 3 indicates the size of 1979 annual reports and the number of pages devoted to financial statements. Eighty-six percent of the reports contained 15 pages or more. The surveyed companies devoted more than 41 percent of their total report pages to financial statements.

TABLE 3. SIZE OF REPORTS AND SPACE DEVOTED TO BASIC FINANCIAL STATEMENTS

Total pages in annual report:	No. of Surveyed Companies	Financial statement pages in annual report:	No. of Surveyed Companies
8 to 14 pages	6	6 to 8 pages	13
15 to 19 pages	8	9 to 11 pages	19
20 to 24 pages	12	12 to 14 pages	7
25 to 29 pages	8	15 to 17 pages	3
30 to 34 pages	3	Over 17	1
Over 34	6		
	43		43

Notes to Financial Statements An integral part of the financial statements is the notes. These contain detailed disclosures of certain financial information not readily discernible from the balance sheet, income statement or statement of changes in financial position. Table 4 indicates the type of information included in the notes to financial statements.

TABLE 4. NOTES TO FINANCIAL STATEMENTS

Types of Information	No. of Surveyed Companies	Types of Information	No. of Surveyed Companies
Accounting policies*	43	Quarterly data	32
		Business segment data	18
Notes payable and long-term debt	38	Self insurance accruals	3
Income taxes	42	Discontinued operations	3
Pension plans	34	Acquisitions	16
Leases	24	Accounting for inflation	10
Profit sharing plans	17		
		Property, plant and equipment	6
Commitments, including leases	12	Notes and accounts receivable	2
		Inventories	6
Commitments and contingencies	16	Regulatory matters	2
Litigation	20	Replacement cost	6
Stock options	23	Intangibles	3
		Commitments	9
Shareholders' equity, including stock options	8	Transactions with affiliates	4
Earnings per share	3		
Investments	6	Compensating balance arrangements	2

*See Section H for a discussion of accounting policies noted in surveyed companies.

Dissemination of annual reports on Form 10-K

The Securities and Exchange Commission's (SEC) rules require that management's proxy statement or annual report to shareholders contain an offer to provide without charge to shareholders, a copy of the issuer's annual report on Form 10-K.

Approximately 72 percent of the surveyed companies included an offer in the annual shareholder report to send the reader a Form 10-K. Two of the companies included Form 10-K in their annual shareholders report. It is assumed that the remainder of the surveyed companies included such a notice in their proxy statement or were otherwise exempt.

EXAMPLES Offer to supply Form 10-K

MURPHY MOTOR FREIGHT LINES, INC.
(Inside Front Cover)

10-K Report

A copy of the Company's 10-K annual report to the Securities and Exchange Commission covering the year ended December 31, 1979, is available to shareholders on request. For a copy, please contact Herman A. Selz, Senior Vice President, Finance and Secretary, Murphy Motor Freight Lines, Inc., P.O. Box 43640, St. Paul, Minnesota 55164.

IU INTERNATIONAL CORPORATION
(Inside Back Cover)

IU's Annual Report to the Securities and Exchange Commission on Form 10-K and the company's Facts & Figures Manual will be available, on request, from IU Corporate Affairs Department, 1500 Walnut Street, Philadelphia, Pa. 19102.

Beneficial shareholders who experience delays in receiving IU financial reports from their brokerage firms are invited to write directly to the Corporate Affairs Department for these publications.

PEPSICO, INC.
(Inside Back Cover)

Form 10-K

Copies of PepsiCo's Form 10-K Report to the Securities and Exchange Commission may be obtained without charge from the Director of Corporate communications, PepsiCo, Inc., Purchase, N.Y. 10577.

Surveyed company year ends

The ICC requires reports submitted to them to be based on a year ending on December 31, or four thirteen week periods, ending on one of the last seven days of the calendar year. Therefore, the accounting records must be maintained to provide for calendar year-end reporting to the ICC, however, motor carriers may report to shareholders based upon a more appropriate fiscal year end. The fiscal year ends used by the surveyed companies in reporting to shareholders are as follows:

Year Ending	No. of Surveyed Companies
December 31	35
52 or 53 weeks ending in late December	4
June 30	2
September 30	2
	43

SECTION B

Motor Carrier Operating Results

The following tables summarize operating results of the surveyed companies.

Revenue from motor carrier operations

	Rank		Revenues (000 omitted)		Percent
	1979	1978	1979	1978	Change
Roadway Express, Inc.	1	1	$1,093,662	$985,171	11.0%
IU International Corporation	2	3	942,961	798,002	18.2
Consolidated Freightways, Inc.	3	2	890,145	805,897	10.5
Yellow Freight System, Inc.	4	4	862,876	780,786	10.5
Leaseway Transportation Corp.	5	5	627,155	573,696	9.3
PepsiCo, Inc.	6	6	575,400	501,100	14.8
McLean Trucking Company	7	7	483,751	431,812	12.0
Allied Van Lines, Inc.	8	8	371,205	328,784	12.9
Spector Industries, Inc.	9	9	317,953	290,741	9.4
Ryder System, Inc.	10	10	260,794	239,705	8.8
Transcon Lines	11	11	237,408	228,751	3.8
The Bekins Company	12	12	234,080	212,788	10.0
Arkansas Best Corporation	13	23	232,692	138,313	68.2
Overnite Transportation Company	14	13	230,062	195,334	17.8
Carolina Freight Carriers Corporation	15	14	215,743	190,566	13.2
Wilson Freight Company	16	15	196,877	183,081	7.5
RLC Corp.	17	19	196,830	150,976	30.4
Chemical Leaman Corporation	18	17	178,447	165,786	7.6
Mayflower Corporation	19	21	171,224	146,203	17.1
T.I.M.E.-DC, Inc.	20	16	169,736	169,558	.1
Branch Industries, Inc.	21	18	162,400	152,738	6.3
Preston Trucking Company, Inc.	22	22	160,361	145,270	10.4
Gateway Transportation Co., Inc.	23	20	147,403	147,691	(.2)
Butler International, Inc.	24	26	141,756	120,960	17.2
Delta California Industries	25	24	137,361	136,137	.1
TeleCom Corporation	26	27	134,198	105,673	27.0
U.S. Truck Lines, Inc. of Delaware	27	25	130,695	121,311	7.7
Refrigerated Transport Co., Inc.	28	28	110,009	98,717	11.4
Tri-State Motor Transit Co.	29	29	107,226	89,435	19.9
Banner Industries, Inc.	30	30	97,145	84,495	15.0

Continued

	Rank		Revenues (000 omitted)		Percent Change
	1979	1978	1979	1978	
Coastal Industries, Inc.	31	32	92,660	76,863	20.6
Murphy Motor Freight Lines, Inc.	32	33	77,511	74,704	3.8
Midwestern Distribution, Inc.	33	35	68,238	56,884	20.0
Briggs Transportation Co.	34	31	64,872	78,015	(16.8)
Eazor Express, Inc.	35	34	61,182	60,270	1.5
Mid-American Lines, Inc.	36	36	43,543	49,092	(11.3)
Lynden Transport, Inc.	37	38	39,925	31,473	22.2
Burnham Enterprises, Inc.	38	37	38,474	31,538	18.2
New Penn Motor Express, Inc.	39	39	37,274	30,852	29.4
Liquid Transporters, Inc.	40	41	28,660	23,495	22.0
Penn Yan Express, Inc.	41	42	23,238	18,134	28.2
Flexi-Van Corporation	42	40	18,993	24,822	(2.3)
Retail Merchant's Industries, Inc.	43	43	8,455	8,025	5.4

Total assets indentifiable with motor carrier operations

	Rank		Amounts (000 omitted)		Percent Change
	1979	1978	1979	1978	
Roadway Express, Inc.	1	1	$514,699	$496,775	3.6%
Yellow Freight System, Inc.	2	2	489,140	400,725	22.1
Consolidated Freightways, Inc.	3	3	463,301	384,788	20.4
IU International Corporation	4	4	361,363	321,857	12.3
Leaseway Transportation Corp.	5	6	300,900	265,300	13.4
PepsiCo. Inc.	6	5	292,400	279,900	4.5
McLean Trucking Company	7	7	251,129	194,669	29.0
Spector Industries, Inc.	8	8	157,944	144,054	9.6
Arkansas-Best Corporation	9	9	136,189	137,388	(.9)
Overnite Transportation Company	10	10	131,308	114,794	14.4
RLC Corp.	11	14	123,920	96,917	27.9
Chemical Leaman Corporation	12	12	123,296	111,009	11.1
Transcon Lines	13	11	111,854	111,126	.7
Ryder System, Inc.	14	13	111,782	99,004	12.9
The Bekins Company	15	16	96,125	88,092	9.1
T.I.M.E.-DC, Inc.	16	18	95,336	87,430	9.0
U.S. Truck Lines, Inc. of Delaware	17	15	94,095	89,150	5.5
Preston Trucking Company, Inc.	18	19	88,296	81,751	8.0
Carolina Freight Carriers Corporation	19	20	88,130	79,239	11.2
Wilson Freight Company	20	17	84,677	87,718	(3.5)

Continued

	Rank		Amounts (000 omitted)		Percent Change
	1979	1978	1979	1978	
Branch Industries, Inc.	21	21	82,054	74,230	10.5
TeleCom Corporation	22	24	62,675	44,690	40.2
Delta California Industries	23	23	57,927	51,897	11.6
Gateway Transportation Co., Inc.	24	22	53,838	67,957	(20.8)
Banner Industries, Inc.	25	27	47,469	39,866	19.1
Mayflower Corporation	26	32	47,228	34,733	36.0
Tri-State Motor Transit Co.	27	26	46,204	40,847	13.1
Coastal Industries, Inc.	28	25	44,978	43,197	4.1
Allied Van Lines, Inc.	29	28	44,320	38,145	16.2
Butler International, Inc.	30	29	41,681	37,496	11.2
Murphy Motor Freight Lines, Inc.	31	30	37,200	36,435	2.1
Refrigerated Transport Co., Inc.	32	34	34,677	30,427	14.0
Briggs Transportation Co.	33	31	32,320	34,849	(7.3)
Midwestern Distribution, Inc.	34	33	30,413	33,560	(9.4)
Eazor Express, Inc.	35	35	26,857	28,692	(6.4)
New Penn Motor Express, Inc.	36	36	26,536	20,667	28.4
Lynden Transport, Inc.	37	37	18,513	18,089	2.3
Liquid Transporters, Inc.	38	38	18,233	16,086	13.4
Penn Yan Express, Inc.	39	40	17,913	14,726	21.6
Mid-American Lines, Inc.	40	39	13,640	16,042	(15.0)
Burnham Enterprises, Inc.	41	42	11,415	8,531	33.8
Flexi-Van Corporation	42	41	9,476	8,658	9.4
Retail Merchant's Industries, Inc.	43	43	3,096	2,309	34.1

Net income-companies without significant noncarrier operations

	Rank		Net Income (000 omitted)		Percent Change
	1979	1978	1979	1978	
Roadway Express, Inc.	1	1	$57,193	$56,917	.5
Yellow Freight System, Inc.	2	2	20,735	39,025	(46.9)
Overnite Transportation Company	3	3	17,085	13,593	25.7
U.S. Truck Lines, Inc. of Delaware	4	4	11,207	10,230	9.6
Preston Trucking Company, Inc.	5	6	6,868	7,038	(2.4)
Chemical Leaman Corporation	6	5	4,317	7,081	(39.0)
Carolina Freight Carriers Corporation	7	9	3,929	3,583	9.7
New Penn Motor Express, Inc.	8	11	3,606	2,803	28.6
Delta California Industries	9	13	3,365	2,556	31.7
Tri-State Motor Transit Co.	10	12	2,980	2,755	8.2

Continued

	Rank		Net Income (000 omitted)		Percent
	1979	1978	1979	1978	Change
Spector Industries, Inc.	11	7	2,401	5,427	(55.8)
Coastal Industries, Inc.	12	17	2,338	1,556	50.3
Burnham Enterprises, Inc.	13	19	2,090	862	142.5
Refrigerated Transport Co., Inc.	14	16	2,047	1,814	12.8
Midwestern Distribution, Inc.	15	10	2,009	2,914	(31.1)
Branch Industries, Inc.	16	14	1,813	2,337	(22.4)
Transcon Lines	17	8	1,806	5,302	(65.9)
Liquid Transporters, Inc.	18	18	1,452	1,122	29.4
Lynden Transport, Inc.	19	21	1,239	648	91.2
Murphy Motor Freight Lines, Inc.	20	15	501	2,271	(77.9)
Penn Yan Express, Inc.	21	23	373	303	23.1
Mid-American Lines, Inc.	22	24	(587)	(54)	**
Eazor Express, Inc.	23	20	(734)	755	*
Briggs Transportation Co.	24	22	(1,897)	468	*
Wilson Freight Company	25	26	(2,885)	(2,200)	(31.1)
Gateway Transportation Co., Inc.	26	25	(5,773)	(1,547)	(273.2)

Net income-companies with significant noncarrier operations

	Net Income (000 omitted)		Percent
	1979	1978	Change
PepsiCo, Inc.	$264,855	$225,769	17.3%
IU International Corporation	67,020	12,060	455.7
Consolidated Freightways, Inc.	65,885	62,007	6.3
Ryder System, Inc.	62,955	55,342	13.8
Leaseway Transportation Corp.	42,915	39,485	8.7
RLC Corp.	27,541	22,198	24.1
Flexi-Van Corporation	26,640	20,505	29.9
Butler International, Inc.	10,368	6,852	51.3
McLean Trucking Company	8,120	15,416	(47.3)
TeleCom Corporation	5,158	3,007	71.5
Banner Industries, Inc.	4,987	3,003	66.1
Mayflower Corporation	3,201	3,134	2.1
The Bekins Company	2,059	95	**
T.I.M.E.-DC, Inc.	1,701	4,044	420.6
Allied Van Lines, Inc.	859	(246)	*
Retail Merchant's Industries, Inc.	(236)	(1,116)	78.9
Arkansas-Best Corporation	(799)	8,955	*

* Due to fluctuation during years between net income and let loss, no percentage change was computed.

** Due to extreme fluctuation during years, no percentage change was computed

Primary net income per share-companies without significant noncarrier operations

	Primary Net Income Per Share Rank		Per Share Data						
			1979			1978			
	1979	1978	Before Other Items	Other Items	Net Income	Before Other Items	Other Items	Net Income	Percent Change
Overnite Transportation Company	1	2	$5.31		$5.31	$4.26		$4.26	24.6%
New Penn Motor Express, Inc.	2	6	3.42		3.42	2.58		2.58	32.6
Chemical Leaman Corporation	3	1	3.30		3.30	5.42		5.42	(39.1)
Roadway Express, Inc.	4	4	2.85		2.85	2.78		2.78	2.5
Lynden Transport, Inc.	5	18	2.62		2.62	1.29		1.29	103.1
Burnham Enterprises, Inc.	6	19	2.61		2.61	1.08		1.08	141.7
U.S. Truck Lines, Inc. of Delaware	7	8	2.50		2.50	2.28		2.28	9.6
Tri-State Motor Transit Co.	8	9	2.33		2.33	2.07		2.07	12.6
Delta California Industries	9	10	2.31		2.31	1.77		1.77	30.5
Preston Trucking Company, Inc.	10	7	2.19		2.19	2.24		2.24	(2.2)
Liquid Transporters, Inc.	11	15	2.00		2.00	1.55		1.55	29.0
Coastal Industries, Inc.	12	17	1.98		1.98	1.31		1.31	51.1
Carolina Freight Carriers Corporation	13	14	1.81		1.81	1.65		1.65	9.7
Regrigerated Transport Co., Inc.	14	16	1.65		1.65	1.47		1.47	12.2
Yellow Freight System, Inc.	15	5	1.45		1.45	2.73		2.73	(46.9)
Spector Industries, Inc.	16	3	1.29		1.29	2.93		2.93	(56.0)
Midwestern Distribution, Inc.	17	13	1.14		1.14	1.66		1.66	(31.3)
Penn Yan Express, Inc.	18	22	.87		.87	.70		.70	24.3
Branch Industries, Inc.	19	20	.73		.73	.93		.93	(21.5)
Transcon Lines	20	12	.58		.58	1.70		1.70	(65.9)
Murphy Motor Freight Lines, Inc.	21	11	.46		.46	1.76		1.76	(73.9)
Eazor Express, Inc.	22	21	(.72)		(.72)	.75		.75	(196.0)
Mid-American Lines, Inc.	23	24	(.85)		(.85)	(.08)		(.08)	(962.5)
Briggs Transportation Co.	24	23	(1.46)		(1.46)	.37		.37	(494.6)
Wilson Freight Company	25	26	(1.97)	.27E	(1.70)	(1.30)		(1.30)	(30.8)
Gateway Transportation Co., Inc.	26	25	(4.44)	.47D (.42)B	(4.39)	(1.31)	.13D	(1.18)	(272.0)

Primary net income per share-companies with significant noncarrier operations

	Primary Net Income Per Share						
	1979			1978			
	Before Other Items	Other Items	Net Income	Before Other Items	Other Items	Net Income	Percent Change
Consolidated Freightways, Inc.	$5.06		$5.06	$4.82		$4.82	5.0%
Flexi-Van Corporation	4.15		4.15	3.47		3.47	19.6
Ryder System, Inc.	3.84		3.84	3.49		3.49	10.0
Leaseway Transportation Corp.	3.62		3.62	3.34		3.34	8.4
PepsiCo, Inc.	2.85		2.85	2.43		2.43	17.3
TeleCom Corporation	2.70		2.70	1.58		1.58	70.9
RLC Corp.	2.28		2.28	1.83	.12A	1.95	16.9
IU International Corporation	1.91	(.03)A	1.88	1.91	(1.61)A	.30	526.7
Butler International, Inc.	1.88		1.88	1.18	.06A	1.24	51.6
Mayflower Corporation	1.57		1.57	1.54		1.54	1.9
McLean Trucking Company	1.44		1.44	2.74		2.74	(47.4)
Banner Industries, Inc.	1.17	.07C	1.24	.75		.75	65.3
Allied Van Lines, Inc.	60	.10E	.70	(.20)		(.20)	450.0
The Bekins Company	.54		.54	.02		.02	*
T.I.M.E.-DC, Inc.	.45		.45	1.21		1.21	(62.8)
Arkansas Best Corporation	(.21)		(.21)	2.34		2.34	(109.0)
Retail Merchant's Industries.							

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* Due to significant fluctuation during years, no percentage change was calculated.

A Discontinued operations.
B Loss on sale of investments.
C Effect of an accounting change regarding tires on revenue equipment.
D Equity of earnings of subsidiary.
E Extraordinary Item.

SECTION C

Current ICC Developments

Ex Parte MC-128, revenue need standards in motor carrier general increase proceedings

Background Federal regulation of motor carriers was instituted in 1935. The Motor Carrier Act, which brought motor carriers under ICC jurisdiction, required the Commission to consider the need for revenues that are sufficient under honest, economic, and efficient management to let the carriers provide the transportation service covered by the rates in issue.

For many years the Commission employed the operating ratio as the principal economic yardstick for evaluating proposed rate increases. This standard had the attractive feature that it could be conveniently computed on specific segments of traffic which are at issue in any rate proceeding.

More formalized procedures for justifying general rate increases were established in Ex Parte No. MC-82, New Procedures in Motor Carrier Revenue Proceedings, 340 I.C.C. 1 (1971). Under those procedures rate bureaus support proposed increases with traffic studies based on statistical sampling. The operating cost for issue traffic is computed using an economic model and compared to revenues on issue traffic, non-issue traffic, and total traffic for all carriers in the "frame." The problem of reasonable earnings was handled by defining the "sum of money" needed to attract capital. This was based on a comparable earnings analysis which reflected risk and capital structure.

In I&S Docket No. M-29772, General Increase, S.M.C.R.C., April, 1978, the Commission adopted after-tax return on shareholders' equity, less tangibles, as the key ratio for determining revenue need in general rate increases. Furthermore, the proposed rate hike was cut to 3.5% in that proceeding based on a "threshold guideline" of about 14% on shareholders' equity.

The Commission subsequently decided to reconsider the decision and transferred the case to a new docket, Ex Parte MC-128, Revenue Need Standards in Motor Carrier General Increase Proceedings. In its Notice of Proposed Ratemaking, the Commission identified a series of questions to be addressed in that proceeding. These questions addressed, among other things, the primary revenue need standard to be employed. The manner in which the standard should be translated to issue traffic is also being questioned in the proceeding. The rate bureaus have urged the Commission to adopt after-tax return on total capital as the primary standard.

Hearings in the MC-128 proceeding have recently been completed. The final outcome of this landmark proceeding cannot be predicted, but it is quite certain that some form of rate base standard will be adopted.

Determining Issue Traffic Cost of Service If the Commission indeed adopts a rate based related standard, it must face the very difficult problem of relating investment cost to issue traffic. The revenue associated with issue traffic is easily isolated and the operating costs can be estimated using Highway Forms A and B. Even if these economic formulas are not accurate in all situations, they are at least broadly accepted and proven to be practical. On the other hand, assigning investment cost to issue traffic is exceedingly complex and poses a major obstacle to implementing the new standard.

The complexities associated with assigning investment cost relate to a variety of factors:

> A typical proceeding addresses some of the rates for many carriers.
>
> Many types of traffic are involved which employ varying mixes of facilities and equipment. Even the same traffic may be handled by two carriers in quite different ways.
>
> Participating carriers have widely ranging capital structures (e.g., some carriers lease all equipment while others own; some carriers have no debt; some carriers have negative equity).
>
> Under existing MC-82 procedures, the investment base of frame carriers may be heavily dominated by a few large carriers who carry only a small portion of issue traffic.
>
> Some carriers are not in the frame.
>
> Owner/operators play a significant role.
>
> A significant amount of traffic moves outside the Commission's jurisdiction (i.e., exempt traffic, traffic moving intrastate, etc.).
>
> Some traffic which is utilizing various facilities and equipment may not "cause" the investment (e.g., marginal traffic hauled to fill an empty backhaul).

In its initial application of the Return on Equity standard, the ICC utilized a simplified approach of allocating system equity to issue traffic in the same proportion as system expenses apply to issue traffic. While this may have been an expedient approach which could be followed with available data, it has some major weaknesses as applied from an industry point of view. The major concern is that marginal traffic, including exempt and intrastate traffic, is being allocated too much equity. This has the net effect of reducing the target Return On Equity level specified by the Commission.

ICC seeks access to confidential carrier records

The ICC Special Counsel has asked the ICC to subpoena confidential financial records from 58 of the country's largest carriers in an effort to determine revenue need standards for motor freight rate increases. This petition was filed after an informal request for the documents was turned down by the carriers.

The written records desired by the Counsel are those which contain information regarding negotiations in connection with issuance of debt or equity securities of motor carriers. Such records should contain the relevant risk factors that determine cost of capital in the motor carrier industry. The records should relate to evaluations of the carriers as investment risks, as well as the terms that have been set for the capital they sought.

Also included among the records wanted by the Counsel are offering memoranda, negotiating documents, and any workpapers or studies that may or may not have been presented to investors.

ATA suit challenges ICC on adoption of master plan

The American Trucking Association (ATA) has recently filed a suit in the Federal Appeals Court in New Orleans which challenges the ICC's decision to adopt a master certification procedure for motor carriers of government traffic. The suit concerns Ex Parte MC-107, a two year experiment on easier entry for carriers of government traffic. The plan would have master certificates--similar to those given to pack-and-crate movers for military bases and to haulers of waste for recycling--presented to minorities and "disadvantaged" carriers interested in handling only government freight.

In the opinion of ATA, MC-107 does not meet the criteria for a general finding of public convenience and necessity, since there is no showing of public need for increased service for government traffic. ATA contends that the Defense Department, the largest single government shipper, has stated that there is no need for a larger number of carriers to handle its traffic and that master certification might hamper the motor carrier industry's ability to meet defense transportation needs. ATA also pointed out that a study conducted by the ICC itself questioned the need for additional carriers to handle government freight and even raised the prospect of harm to existing carriers if MC-107 went into effect. ATA believes that traffic diversion under master certification would cause disruption in present balanced traffic patterns as well as diversion of revenues.

ICC alters entry test for applications for operating authority

Since 1936, one of the major criteria used by the ICC in deciding whether applications for motor carrier authority should be granted was that the applicant had to show that the proposed service would serve the public as well as existing carriers already do. In late 1979, the ICC relaxed its standards for deciding whether applications for authority were in the public interest. Applicants now only need show that the service they propose is responsive to a "useful public purpose" and that they are "fit to perform that service." The commission will only turn down those applications for which there are opponents who can demonstrate that a grant of authority would endanger their operations to an extent "contrary to the public interest."

Because the burden of proof has now been squarely placed upon the opposing parties, guidelines for filing protests were reemphasized. The opponent must describe its pertinent operating authority, present operations, and the amount of its traffic that would be subject to diversion if the application is granted. There must also be a statement as to the adverse impact that the grant of authority would have on the opponent's business such as terminal closings, employee dismissals, loss of traffic in a particular geographical area, and overall reduction in business.

ICC institutes new methods for handling of TA's and ETA's

New procedures for handling temporary authority (TA) applications and emergency temporary authority (ETA) applications were put into effect by the ICC in early 1980.

The new procedures establish six regional motor carrier boards to take over the work of the motor carrier board in the headquarters office. Instead of filing applications with the nearest ICC office, carriers must file them with the appropriate regional office. The ICC reaffirmed that carriers can still apply for ETA's by telephone or telegraph to the regional office, and mail the necessary paperwork later.

Decisions of the regional boards may be appealed to an ICC commissioner assigned by the chairman to handle such appeals on a rotating basis. The regional offices will maintain all records and provide status information on pending cases. In order to answer general questions on the filing of TA's and ETA's, the ICC will retain a temporary authority specialist in the headquarters office.

To critics of the change who claimed that the new procedures would delay decisions because of the greater volume to be handled by the regional offices, the ICC responded that the argument had "little merit." In fact, the ICC claims that the decision making process should be speeded up rather than delayed, but cautioned that hand delivery of applications is not advisable. According to the Commission, the new system will reduce unnecessary paperwork and eliminate duplication of functions between headquarters and the field.

ICC proposes to allow motor carriers to serve intermediate points

Citing fuel conservation as the major goal, the ICC has proposed new regulations to permit regular-route common carriers to temporarily serve all intermediate points on their authorized routes. Traditionally, motor carriers which haul general commodities hold ICC operating authority to pick-up and deliver freight at specific terminals along designated routes. Often, certain intermediate points on these routes are not included in the operating authority.

The proposal calls for lifting the intermediate point restrictions for 180 days, commencing the date of publication of the final rule, in order to correct "inefficient operations and needless fuel consumption." The Commission's rationale basically states that precluding carriers already operating over a specific route from picking up or delivering goods at certain intermediate locations means a second motor carrier must travel over essentially the same route, duplicating mileage, to serve these locations. The proposal's intent was to cover the winter months when fuel consumption is greatest. During this period, the Commission is to consider permanently lifting the restrictions on intermediate point service.

Although the ICC admits that it does not precisely know the total number of outstanding certificates which limit or restrict against service at intermediate points, nor how traffic moves to and from points which are restricted in a carrier's regular route certificate, it does believe that shippers located at restricted intermediate points are receiving less competitive service with fewer options to move their goods. The Commission also quantifies the savings in fuel consumption which would result from the proposal as about 1,900,000 gallons of fuel a year.

Despite the advantages cited by the ICC, it admits that not all regular route operations would be rendered more fuel efficient as a result of the new rule. In fact, in certain instances the rule may even be counterproductive if it were mandatory since some carriers would be forced to perform less efficient operations (on the basis of equipment utilization and/or fuel economy). Therefore, the rule would be permissable, not mandatory, in order to give carriers needed flexibility.

The proposal has met with considerable opposition including criticism from the American Trucking Association (ATA) and five of its conferences. The opponents charge that the ICC has resorted to outdated studies and faulty methodology in arriving at its proposal. The ATA alleges that the fuel savings estimated by the Commission is considerably overstated, and offers a figure of about 761,000 gallons a year as being a more reasonable estimate of the fuel that could be conserved as a result of the proposal. The ATA also claims that as a result of a voluntary program large carriers would serve the more profitable intermediate points while smaller carriers would still be forced to serve unprofitable points under their common-carrier obligation. Other critics argue that if the Commission offers regular common carriers the right to selectively serve intermediate points, a similar benefit should be conferred upon all segments of the industry.

ICC proposes dropping refrigeration equipment rights restrictions

The ICC has issued a notice of proposed rulemaking, Ex Parte MC-139, that would delete from all existing certificates of authority any references to "vehicles equipped with mechanical refrigeration." The rationale behind the proposal, according to the ICC, is to increase fuel savings and lower costs by allowing refrigerated carriers to use ordinary trailers to transport dry goods permitted in their authorities.

At the present time, refrigerated equipment restrictions have not precluded carriers from hauling dry freight, but have forced them to use more costly refrigerated equipment for that purpose. Hence, according to the ICC, the restriction prevents refrigerated carriers that rely on nonrefrigerated commodities to balance their operations from rendering a fully efficient and economic service.

The ICC's proposal reflects the Commission's policy that restrictions are inherently undesirable and should not be imposed or retained unless it can be shown that they are practicable, effective, and in the public interest. The ICC also feels that the new proposal will serve to encourage greater competition.

ICC releases staff study on operating rights values

The ICC, as part of their continuing review of regulatory policy, recently completed a study of operating rights and their values. Basically, an "operating right" is a license granted by the ICC giving the holder the right to provide transportation. Once granted, these rights may be sold.

The principal findings of the report include: operating rights values are determined by a complex set of market, economic, and regulatory variables, the value of each certificate transaction being heavily influenced by the prospective buyer's perception of revenue increases and cost savings opportunities to be achieved. According to the study, even though goodwill, economic factors, perceived profit opportunities, and personal considerations go into determining the value associated with a given operating certificate, federal regulatory policies have a substantial impact on the prices at which operating rights are traded. The study concludes that operating rights values have tended to stabilize, and have even decreased in some markets. In the opinion of the study, an operating certificate is a very real asset to a motor carrier; it functions much the same as some tangible assets in non-regulated fields, that is, it may be a repository of value for the carrier, over a period of time, and a source of collateral for borrowing. See Section D "AICPA Special Motor Carrier Committee--Value of Operating Rights" for a schedule showing the relationship of operating rights to total assets and shareholders' equity of surveyed companies.

ICC changes revenue levels defining class of carriers

The ICC has revised the class revenue levels for motor carriers of property to:

1. $5 million or more for Class I carriers

2. $1 million to less than $5 million for Class II carriers, and

3. less than $1 million for Class III carriers.

Because of classification changes resulting from this revision, many small motor carriers of property will be relieved of considerable detailed accounting and reporting to the Commission.

Because the change is effective January 1, 1980, the exact numbers of carriers that will shift between the three classifications will not be known until the 1980 annual reports are available. However, the ICC estimates that the change will shift some 700 Class I carriers to Class II and some 800 Class II carriers to Class III. As a result, there will be about 300 Class I carriers, 2,800 Class II carriers, while Class III carriers will number about 13,700.

ICC sets new unidentified payments rule

An amendment to the ICC's regulations on handling duplicate payments establishes formal procedures a carrier must follow with respect to unidentified receipts from shippers.

The new regulations require carriers to provide written notice to the shipper requesting sufficient information to identify the payment. The notice, which must clearly indicate that it is not a request for payment, should include the check number, amount, date of payment, the payor's name, and any other information the carrier is able to provide. The notice must be mailed by the carrier within 14 days of receipt. If no response is received by the carrier within 90 days from the date notice was mailed, the carrier will be permitted to treat the unidentified payment as a payment in fact for freight charges owed to it. If the shipper's response to the notice is insufficient to identify the payment, the carrier has the option of requesting additional information or indicating that it intends to keep the payment for freight charges lawfully due. If no refund is made, the carrier must inform the shipper of its right to file a formal claim for refund under the ICC's regular claims procedure.

ICC changes quarterly report forms

Effective for 1980, the ICC has changed its motor carrier reporting requirements with respect to quarterly operating and financial reporting requirements. The new regulations will considerably reduce the amount of information available quarterly on large segments of the industry.

In 1980, detailed quarterly reports (Form QFR) will be completed and filed by Class I common carriers, Class II "Instruction 27" carriers (those with at least 75% of their revenue from intercity freight hauls), and Class I household goods carriers. The report form itself has also been revised and simplified.

A new one-page form QFR-S will be filed by all Class I and II contract carriers, Class II special commodity carriers and movers, and Class II general freight carriers that are not "Instruction 27" carriers. Although the ICC had originally considered dropping the quarterly reporting requirements entirely for these carriers, the Commission stated that it expects "substantial regulatory changes to the specialized carrier and contract-carrier industry in the future." The short form will supply information needed to monitor the results of these changes.

The "fuel and related data" section of Form QFR was revised so the ICC could monitor and analyze significant changes in fuel prices. The ICC claims it was unable to make this analysis in the past since all such data had come from only a small number of carriers on a monthly basis. Filers of Form QFR will be required to report the amount of fuel purchased, rather than consumed.

Subsequent to the original proposal, the ICC received numerous comments from carriers, their associations, and insurance companies. The American Trucking Association and the insurance companies opposed the elimination of the quarterly data base for such a large number of carriers. The Commission, however, rejected their arguments citing the "new reporting policy" it recently adopted. Under the new policy, the ICC plans to collect only data that is used internally to fulfill regulatory responsibilities. The previous policy which accommodated the needs of other users of the information is no longer feasible, according to the Commission, because it places an increased reporting burden on certain carriers and an unnecessary burden on the agency.

ICC proposes to end quarterly reports on freight claims

In late 1979, the ICC proposed eliminating quarterly reporting of freight loss and damage claims by carriers effective January 1, 1980. The rules in effect at that time required such reports (Form QL&D/R&M) from all motor freight carriers with annual revenues over $1 million.

The rationale given by the ICC for the proposal was that their use of the reports could no longer justify the reporting burden on the carriers. The ICC did state, however, it is aware that the Department of Transportation (DOT) uses information in the form, but that DOT does not have authority to require that this data be filed. The ICC asked DOT to demonstrate a "justifiable need" and alternatives for obtaining this data.

Considerable opposition was voiced by the National Industrial Traffic League which stated that the information in the forms is essential to shippers in making everyday transportation decisions and is an aid to both carriers and shippers in carrier ratemaking.

At the current time, the issue has not been resolved. Carriers previously required to file the form are still required to do so; however, the forms are now being filed with the DOT rather than with the ICC.

ICC proposes new rules on freight deliveries

The ICC has issued a proposal requiring motor freight carriers and forwarders to notify shippers by wire, within specified time limits, of freight that is refused or unclaimed. In the event that the notice is not sent, the carrier or forwarder could not assess storage charges.

The main purpose of the proposal, according to the ICC, is to prevent the accrual of unnecessary storage charges, as well as to expedite the release of carrier equipment and conserve carrier terminal and warehouse space.

The proposal provides specific guidelines for the notice. In summary:

1. Shippers are to be notified within 24 hours (excluding Saturdays, Sundays, and legal holidays) after the carrier is advised the freight is refused.

2. When freight is unclaimed or undeliverable, through no fault of the carrier, and remains on hand 3 days after notice of arrival has been sent to the party to whom the goods were to be delivered, shippers are to be notified within 24 hours after the 3 day period.

3. If no notice is sent as required, no storage charges can be assessed for a determinate length of time until the notice is properly sent.

SECTION D

Other Developments and Trends

Proposed Motor Carrier Reform Act of 1980 (S-2245)

The Senate has passed legislation (by a 70 to 20 vote) to amend Title 49 of the United States Code to eliminate unnecessary regulation of motor carriers of property, and for other purposes. This legislation now goes to the House for their consideration. A summary of topics covered in this proposed legislation follows.

Motor carrier entry policy

The bill retains the traditional test that all applicants must be fit, willing, and able. However, it requires the ICC to grant certificates to applicants unless it finds on the basis of a preponderance of evidence that the transportation would be inconsistent with the present or future public convenience and necessity. In addition, it prohibits the ICC from instituting the so-called "Master Certificate" approach to granting certificates that the Commission has adopted in some limited areas and is considering using in other areas. In order to expedite the application process, the bill limits the carriers who can protest an application to (a) those carriers which have recently performed service within the scope of the application, (b) carriers which have filed an application for substantially the same traffic, and (c) carriers the Commission grants leave to intervene.

Removal of certain restrictions on motor carrier operations

The bill directs the ICC to eliminate within six months gateway and circuitous route restrictions from motor carrier certificates and to develop procedures to enable motor carriers to remove additional operating restrictions from their certificates and permits which are not productive or are energy wasteful. Such restrictions include, but are not limited to, restrictions on commodity authorities, restrictions on service to intermediate points, restrictions from providing roundtrip authority where only one-way authority exists, and narrow territorial limitations. This bill also mandates expeditious handling of all applications by carriers to remove such restrictions from their certificates and permits.

Exemptions

The bill would expand the agricultural exemption to include all food items, whether processed or not, and their byproducts, and certain farm input items such as soil conditions and nonhazardous agricultural chemicals and fertilizers. In addition, three other areas have been included in expanding the exemption from Federal regulations. The first is transportation by motor vehicle incidental to air cargo movements. The second is an equivalent exemption of transportation by motor vehicle incidental to movement by rail. The third, is to exempt transportation of used pallets and other shipping devices and used empty containers, including intermodal cargo containers.

Efficient food transportation

The purpose of this section of the bill is to clarify the extent to which the Robinson-Patman Act imposes limits on a seller of food and grocery products who is desirous of compensating a customer for picking up commodities at the seller's dock.

Private carriage

The bill provides that a carrier may provide compensated transportation to any member of its corporate family, provided the parent owns a "100 percent interest" in each of the subsidiaries. In order to insure that the intercorporate transportation service is legitimate, the parent company need only notify the ICC of its intent or one of its subsidiaries' intent to provide the transportation service. The notice must contain no more than a list of the participating subsidiaries and an affidavit that the parent owns a 100 percent interest in each. Following publication in the Federal Register, the Commission will receipt and return a copy of the notice which will be kept in the "cab of all vehicles conducting the transportation." This simple notice procedure is designed for the protection of the carrier providing the transportation and clearly will result in no paperwork burden on the corporate family desirous of this beneficial exemption from regulation.

Motor contract carriers

The definition of motor contract carrier is amended in the bill by deleting the reference to the number of shippers to be served by the carrier. Until recently, the ICC interpreted that language to mean that a contract carrier could serve no more than eight persons. The Commission has since abolished that rule, known as the "Rule of Eight" and the bill ratifies the Commission's action.

Zone of rate freedom for motor carriers of property and freight forwarders

The Senate, in an effort to prepare a balanced scheme for substantial reform of the motor carrier industry, believes that reforms regarding entry in the various segments of the motor carrier market must be counter balanced with increased freedom in ratemaking and rate flexibility for carriers to insure a healthy competitive environment. Freer entry with no corresponding rate flexibility could result in the frustration of competitive forces. At present, carriers often compete only on quality of service. This legislation is clearly designed to give the carrier and the shipping public the ability to structure their transportation systems around a variety of price options as well as quality of service.

The bill provides that motor carriers and freight forwarders shall immediately have the ability to adjust their rates up to 10 percent above or 10 percent below the rate in effect one year prior to the effective date of the proposed rate. Like the Household Goods Transportation Act of 1979 (S. 1798), the mechanism for downward rate flexibility would always allow pricing at a level 10 percent below the rate in effect on July 1, 1980. Accordingly, as prices increase over time, the downward zone becomes wider. Protections against predatory and discriminatory pricing are also contained in the bill. In the event that the ICC grants general rate increases, the first 5 percent of such general rate increases will not be included in determining the 10 percent upward rate flexibility zone.

Carriers which elect to have a rate proposal considered by the ICC pursuant to this section will be granted a considerable range of pricing latitude. A rate filed within the zone is presumed to be reasonable. It may not be suspended, investigated, revised, or declared unlawful, unless the Commission determines that the rate is predatory (that is, below the costs of the carrier providing the transportation) or that it is unlawfully discriminatory.

The bill further contains language which enables the ICC to increase the price flexibility of the 10 percent zone by as much as 5 additional percentage points per year if the Commission finds that there "is sufficient actual and potential competition to regulate rates" and that there would be "benefits to carriers or freight forwarders, shippers, and the public from increased price flexibility."

Finally, to insure maximum price flexibility following the elimination of antitrust immunity for certain rate bureau voting and discussions, the bill provides that after July 1, 1983, the prior year's point of reference rates may be adjusted to reflect changes in the Producers Price Index. Accordingly, prior year rates will be annualized to include inflation and motor carriers will have a guaranteed 10 percent flexibility above inflation. In other words, general rate increases will not be discounted at all against the pricing flexibility zone as it will be prior to July 1, 1983.

The bill states that the provisions of the antitrust laws shall be applicable to the setting of rates within the zone of pricing freedom.

Rule of ratemaking

In an effort to insure that motor carriers will be able to recoup their inflationary costs with a minimum administrative burden, the bill provides specific directions to the ICC in approving or disapproving general rate increases. Under the existing ratemaking structure, general rate increases are granted to motor carriers based upon increased costs they have already experienced. The bill provides for prospective relief. It requires the ICC to allow a rate base that takes into account future anticipated escalating costs.

Antitrust immunity

Under the current law the motor carrier industry enjoys a privilege that is generally not accorded other sectors of the economy. As a result of an amendment to the Interstate Commerce Act passed in 1948, the so-called Reed-Bulwinkle Act, the motor carrier industry has been granted immunity from the antitrust laws by the ICC in order to meet and set uniform prices for transportation services for all competitors. There is no issue that has received more attention during the debate before the Senate Committee than whether this extraordinary immunity should be allowed to continue.

Over the years a system of "rate bureaus" has grown up to take advantage of this antitrust immunity. These are private agencies formed by motor carriers that exist to coordinate the activities among these carriers with respect to rate questions. Many of these rate bureaus are staffed by skilled rate experts with technical expertise to process rate applications and to make recommendations and proposals to the members of the bureaus for changes in basic rate structures. There are ten major regional rate bureaus for the general commodity carriers and a large number of other more specialized rate bureaus for different sectors of the trucking industry. In addition, there is a National Classification Board whose purpose is to allow carriers to get together to discuss and agree upon specific classifications of commodities to which individual rates apply.

The activities of these various rate bureaus are many. The bureaus process general rate increases for the carriers, process both single-line and joint-line rate proposals, publish tariffs, process independent actions of single carriers, and provide many other support services for the members.

Under the current statutes the ICC has substantial discretion in approving or disapproving rate bureau agreements. The Commission has already announced that it has voted to eliminate immunity for single-line rate discussion and voting. In this context, the term "single-line rate" refers to a rate offered by a motor carrier of property that is applicable over its lines and which does not involve the services of any other carrier. Under current practices, most tariff rates are identical for both single-line and joint-line movements. Thus, when rate bureaus discuss individual rates, they generally do not distinguish between single-line and joint-line rates. This has not always been the case, however, and need not be in the future.

The bill will implement a number of procedural reforms in the rate bureau process and, over a period of three years, phase out antitrust immunity for discussion or voting upon single-line rates. This will result in a significant change in the way that motor carriers price their services. It will mean that consideration of single-line and joint-line rates must be done separately. It will put a greater burden upon individual carriers to determine their own cost structures and the most optimum rates from their individual company point of view to offer the shipping public. It is the intent of the Senate that there will be public benefits that greatly outweigh the burdens of changing to a new system--namely, more competitive pricing.

The bill will phase in the elimination of this antitrust immunity over a period of time. The existing system has operated for over 30 years and both carriers and shippers must be given sufficient time to readjust to the new environment.

The elimination of antitrust immunity for single-line rates is one of the most important aspects of the legislation. Without this provision, regulatory reform will be very seriously jeopardized. The immunity from the antitrust laws to discuss and vote upon single-line rates represents the most anticompetitive activity engaged in by the trucking industry, in the opinion of the Senate. It is a situation in which individual firms can sit down together with their direct competitors to set uniform prices that each of them will charge the public.

It is important to emphasize that this legislation does not propose to eliminate rate bureaus. There is nothing in this bill that would prohibit rate bureaus from continuing their functions with respect to discussing and voting upon general rate increases, proposing changes in commodity classifications, proposing changes in tariff structure, publishing tariffs, filing independent actions for individual member carriers, discussing packaging regulations, or providing a number of other support services for the members. It is particularly important to note that the Senate does not intend that general rate increases or decreases that are applicable to all rates charged by one or more carriers be eliminated from the existing antitrust immunity. They recognize that general rate increases are applicable to single-line rates as well as joint-line rates but intend that not withstanding the prohibition against discussion or voting upon specific single-line rate proposals, general rate increases may be discussed and voted upon. Of course any discussion by the carriers of general rate increases after July 1, 1983, must be limited to industry average costs and may not include discussion of specific markets or individual single-line rates. In other parts of the rate bureau section of the bill, the Senate has proposed to reduce the amount of discretion that the Commission has to approve or disapprove rate bureau agreements. This reduction in Commission discretion goes hand-in-hand with other reforms proposed in the rate bureau process. This is a clear example of Congress defining the limits which it believes the Commission should follow and reducing the discretion of the Commission to expand those limits. When the parties to an agreement meet all the conditions in the section, there is a presumption that the Commission should find the agreement to be in the public interest.

Lumping

The bill makes it unlawful for a person to coerce or attempt to coerce truck drivers to employ assistance for loading or unloading their vehicles. The section addresses a problem that some carriers and owner-operators have had with having to pay large fees to so-called "lumpers" to load and unload their vehicles. Frequently, such fees are required to be paid, regardless of whether the carrier or owner-operator is willing to perform that service himself. Also, the carrier or owner-operator often is not reimbursed by the shipper for the fees.

Specifically, under this section, a consignor or consignee who requires a truck driver to use assistance in loading or unloading the vehicle, either must provide such assistance or must compensate the driver for all costs associated with securing such assistance.

Further, it will be unlawful for anyone to coerce or attempt to coerce a driver to use loading or unloading assistance which is not required by the consignor or consignee or which the driver otherwise would not use. In the case of a tariff filed by a carrier which provides for loading or unloading by the carrier, the rates paid would be considered to include compensation sufficient to meet the requirements of this section.

Civil and criminal penalties for violations of the new section are established.

Motor carrier brokers and contracts for agricultural transportation

The legislation establishes a "fit, willing, and able" standard only with respect to licensing of motor carrier brokers for regulated commodities. It also provides for new regulations to set minimum standards for the use of written contracts for exempted agricultural transportation.

Finance exemptions

Current law exempts from Commission regulation the issuance of certain securities and the assumption of certain obligations. Similarly exempt are certain consolidations, mergers, or acquisitions of control involving motor carriers. The purpose of these provisions is to exempt from regulation transactions which are considered minor in nature. The exemptions turn on the dollar amount involved in the transaction. The bill proposes to increase these dollar amounts which have not been revised since 1965. The Senate believes this is necessary in order to reflect the inflationary trend in the economy. Consequently, the bill raises the exemption concerning consolidations, mergers, and acquisitions to $2 million.

Uniform state regulations

At present, individual State regulations for licensing, registration, and filings for interstate motor carriers are often confusing, lack uniformity, and are unnecessarily duplicative and burdensome. This section directs the Secretary of Transportation and the ICC, in consultation with the States and the motor carrier industry, including both the regulated and unregulated segments, to develop legislative or other recommendations to provide a more efficient and fair system of State regulations for motor carriers. These recommendations are to be presented to Congress no later than 18 months after the enactment of the bill.

Pooling arrangements

Under the legislation any party to an agreement governing a pooling arrangement may apply for Commission approval of the agreement. The applicant must file the agreement with the Commission not less than 50 days before its effective date and the Commission must approve the agreement without hearing, unless it determines either that the agreement is of major transportation importance, or that it will unduly restrain competition. If either of those factors is present, then the Commission is directed to hold a hearing on the agreement.

The purpose of this provision is to expedite the procedures for Commission consideration of the agreements. This should lead to greater use of pooling arrangements. Such arrangements can be beneficial to the shipping public, in particular smaller communities, in the form of more frequent and expeditious service than otherwise available in areas where shipments are small in size and number. The arrangements also allow carriers to reduce their operating expenses.

Joint rates and through routes

The bill gives the ICC, under certain prescribed conditions, and when found to be in the public interest, the authority to require motor carriers of property to establish reasonable joint rates and through routes with each other, and with rail, express, and water common carriers, where such action is shown to be necessary.

Currently, these carriers can enter into such arrangements on a voluntary basis. The amendments would enable the Commission to require coordinated service between and within the several modes where it is needed, but is not being performed voluntarily. Such authority can increase the coordination and interchange of traffic between carriers in a manner that would be of benefit to each mode and to the shipping public.

Temporary authorities and emergency temporary authorities

The present law allows the Commission to grant a motor carrier temporary authority to provide transportation to a place or an area that has no other carrier capable of meeting its immediate needs. Under its own regulations, the Commission also grants emergency temporary authority (ETA) if it determines that due to emergency conditions, there is not sufficient time to process an application for temporary authority (TA).

In the last couple of years, the number of TA and ETA applications has increased greatly. Last year, the Commission received 14,000 TA applications and 36,000 ETA applications. This fiscal year, it expects to receive 15,000 TA applications and 55,000 ETA applications, including about 25,000 ETA extensions.

The Senate is concerned whether the Commission can process all of these applications in a timely fashion. If it cannot, shippers and communities in need of immediate transportation service may suffer.

The Senate believes that the provisions of this section of the bill will help expedite the application process. First, it requires the Commission to take final action on TA applications no later than 90 days after they are filed. The Commission will have 15 days to take final action on ETA applications. The Senate believes that in true emergency situations the Commission should act within that short timeframe.

Second, in order to reduce the number of extension applications filed, the Senate recommends that the Commission be authorized to grant temporary authority for up to 270 days and to extend ETA's for an additional 90 days. Under the present law, a TA grant can be for no more than 180 days. As a general rule, the Commission extends ETA's for an additional 30 days.

The 270-day period for TA's is intended to coincide with the bill's deadline for processing the majority of permanent applications. Currently, a significant number of TA applications are filed along with applications for permanent authority. If the Commission fails to act on the permanent application within 180 days, the applicant files for an extension of its TA authority. The Senate does not intend for the bill to preclude the Commission from granting such extensions; however, the longer period should reduce the need for such extensions.

Procedural reform

In the last few years, the number of motor carrier cases filed with the Commission has increased drastically. This is largely due to the Commission's liberalized entry policy. The Commission has diligently attempted to cut case processing time down through various administrative reforms, but it has not been able to keep up entirely with its caseload. Consequently, its backlog of cases has been growing. With the changes proposed by this bill in the statute's entry area, the Senate expects an initial short-term number of motor carrier applications to be filed. Therefore, it is absolutely necessary that the Commission's procedures be improved and that it be able to process cases in a more expeditious fashion.

The bill requires the Commission to take final action within 270 days on cases decided on the basis of written evidence. That is about 99 percent of the Commission's cases. The other one percent go to oral hearing and the new section gives the Commission longer to decide those. In extraordinary cases, the Commission is authorized to extend the time limits.

Enforcement and claims

The enforcement section of the bill involves an attempt to correct the practice complained about by various shippers involving carriers subject to the jurisdiction of the ICC. These provisions specify precisely what shall constitute a disallowance of the claim by a carrier and hence, when the time limits for bringing civil actions commence.

Agricultural cooperatives

The current statute permits agricultural cooperative associations to provide transportation services for their members without Federal economic regulation. The statute now provides that 15 percent of the total interstate transportation services may be performed for shippers other than co-op members. The purpose of this provision in the law is to allow agricultural co-ops to balance their operations by granting this limited backhaul authority.

The bill would increase that exemption from 15 percent to 35 percent. This would provide greater opportunities for agricultural co-ops to balance their operations and still assure that they exist for the primary purpose of serving their members' transportation needs.

Consolidation, merger, and acquisition of control of a freight forwarder

The bill extends to freight forwarders the right to acquire other types of carriers with the approval of the Commission. Current law prohibits a freight forwarder from acquiring other carriers under any circumstances, but permits those carriers to acquire freight forwarders. This section of S-2245 places freight forwarders on an equal footing with other carriers subject to Commission regulation. In addition, the bill makes it clear that a freight forwarder may not discriminate against any carrier controlled by, or under common control with such freight forwarder.

Inflation accounting

In September 1979 the Financial Accounting Standards Board (FASB) issued Statement No. 33, "Financial Reporting and Changing Prices." Our publication "Inflation Accounting" (E&W NO. 39111) provides guidance on implementing the requirements of Statement No. 33. The Statement requires disclosure in 1979 annual reports of the effects of inflation. The FASB regards these disclosures as experimental, so the data will appear in supplementary form, either outside the financial statements or in unaudited footnotes.

Only public companies having either $1 billion of assets or $125 million of inventories and gross properties (before accumulated depreciation) at the beginning of the year are required to present the supplemental information. However, all enterprises are encouraged to make these disclosures.

The deliberations on the changing prices standard generated a great deal of controversy among preparers, auditors and users of financial statements over how the FASB should proceed with its inflation accounting experiment. Realizing that a consensus could not be reached on how to report the effects of inflation on business enterprises, the FASB concluded that companies should give supplemental information under two fundamentally different measurement approaches:

Historical cost/constant dollar accounting--which deals with general inflation (i.e., changes in the purchasing power of the dollar), and

Current cost accounting--which addresses the effect of specific price changes on a firm's resources.

The principal disclosures required under the FASB's dual measurement approach are:

	Historical Cost/ Constant Dollar	Current Cost
Current Year Data:		
Income from continuing operations	X	X
Purchasing power gain or loss on monetary assets and liabilities	X	X
Increases or decreases in the current costs of inventories and properties, net of inflation		X
Inventories and properties at year-end		X
Five-Year Summary of Selected Data	X	X
Footnotes and Narrative Explanations	X	X

The disclosures are effective for fiscal years ending after December 24, 1979, but companies may postpone disclosure of their 1979 (or fiscal 1980) current cost information until their annual reports for years ending after December 24, 1980. See Section I "Other Noteworthy Disclosures" for examples of applicable disclosures contained in surveyed companies' 1979 annual reports.

Capitalization of interest cost

FASB Statement No. 34 requires capitalizing interest as part of the historical cost of acquiring certain assets. Our publication "Capitalization of Interest Cost" (E&W No. 39129) provides implementation guidance. Assets qualifying for interest capitalization generally are those that require a period of time to get them ready for their intended use. Examples of qualifying assets are those constructed for an entity's own use (e.g., a warehouse facility) or those intended for sale or lease that are constructed as discrete projects.

Interest capitalization begins when all of the following three conditions are met:

1. Capitalized expenditures requiring the payment of cash, the transfer of other assets, or the incurring of an interest bearing liability (as opposed to non-interest bearing liabilities such as trade payables, accruals and retainages) have been made for a qualifying asset.

2. Activities that are necessary to get a qualifying asset ready for its intended use are in progress.

3. Interest cost is being incurred.

Capitalization of interest cost is required if its effect, compared with the effect of expensing as incurred, is material. If the effect is not material, capitalization is permitted, but not required. The FASB rejected the concept of capitalizing interest as a holding cost. Thus, earning assets and assets not undergoing construction or development activities do not qualify for interest capitalization.

Interest cost eligible for capitalization is limited to amounts incurred on borrowings and other obligations. The amount to be capitalized is determined by applying an interest rate to the average amount of accumulated expenditures for the asset during the construction or development period. If a specific borrowing can be associated with a qualifying asset, the rate on that borrowing should be applied to the appropriate portion of the average accumulated expenditures. For expenditures in excess of the amount associated with specific borrowings, a weighted average of the rates on other borrowings should be used. Judgment will be required in identifying the borrowings to be considered when computing the weighted average rate.

The Statement is to be applied prospectively in fiscal years beginning after December 15, 1979. Earlier application is permitted in annual financial statements that have not been previously issued.

As a result of Statement No. 34, the SEC issued ASR No. 272 which rescinds the moratorium on interest capitalization at the time a registrant adopts the provisions of Statement No. 34. The SEC's disclosure rules regarding interest also have been revised to conform to the requirements of Statement No. 34.

Effect of rate regulation on accounting for regulated enterprises

The Addendum to Accounting Principles Board (APB) Opinion No. 2 provides that enterprises whose rates or prices are subject to government regulation may, in certain circumstances, apply accounting standards that reflect the rate-making process. Questions and uncertainty regarding the application of the Addendum prompted the FASB to consider accounting for rate regulated industries.

After two years of study, the FASB has issued a Discussion Memorandum (DM), "Effect of Rate Regulation on Accounting for Regulated Enterprises." The DM is described in our publication "Accounting for Rate-Regulated Enterprises" (E&W No. 39223). The key issue in the DM is whether the accounting prescribed by regulatory agencies should be considered generally accepted for purposes of preparing financial statements for the general public.

AICPA Special Motor Carriers Committee

A summary of accounting issues being considered by this committee follows.

Accounting for tires in service

Committee research indicates that the various methods used to account for tires in the motor carrier industry result from the ICC requirement that tires not be capitalized as part of the revenue equipment. The ICC permits capitalization of tires (and amortization) in a separate account or, alternatively, expensing the tires at the time they are placed in service. Other industries not regulated by the ICC that operate a fleet of vehicles, capitalize tires as part of the equipment and expense replacements at the time they are placed in service. Committee research also indicates that tires capitalized do not meet the criteria for classification as a prepaid expense. Existing accounting literature supports the capitalization of tires as part of the equipment.

Accounting for temporary authority (TA)

Most carriers account for TA as a purchase on the date TA commences, in accordance with APB Opinion No. 16, "Business Combinations." Committee research indicates this treatment is proper. The accounting treatment required for ICC regulatory reports differs substantially from generally accepted accounting principals in this matter.

Gains or losses on trade-ins of revenue equipment

This issue involves the application of APB Opinion No. 29, "Accounting for Nonmonetary Transactions." When Opinion No. 29 is applicable no gain should be recognized on trade-ins of revenue equipment. The ICC requires the recognition of gains or losses on trade-ins of revenue equipment as a depreciation adjustment.

Value of Operating Rights

The possibility of deregulation raises the question as to the future value of operating rights. Existing accounting literature (APB Opinion No. 17, "Intangible Assets") requires an evaluation periodically to determine whether current events and circumstances warrant a reduction in the carrying value of intangibles. Operating rights represent approximately 15% of total motor carrier assets. The Committee is exploring whether a more rational method of reducing intangibles should be considered if deregulation occurs.

The relationship of intangibles to total assets and shareholders' equity for the motor carriers included in this survey follows.

Relationship of intangibles to total assets and shareholders' equity

Carrier	Total Assets	Total Shareholders' Equity	Total Intangibles	Percent Of Intangibles To: Total Assets	Percent Of Intangibles To: Shareholders' Equity
000 Omitted					
Arkansas Best Corporation	$ 181,701	$ 43,661	$ 20,372	11.2%	4.7%
Allied Van Lines, Inc.	63,765	14,739	954	1.5	6.5
Banner Industries, Inc.	111,395	33,834	8,833	7.9	2.6
The Bekins Company	119,252	48,121	3,767	3.1	7.8
Branch Industries, Inc.	82,054	25,439	3,370	4.1	13.2
Briggs Transportation Co.	32,320	6,496	4,813	14.9	74.1
Burnham Enterprises, Inc.	11,415	5,315	-	-	-
Butler International, Inc.	90,119	35,743	6,152	6.8	17.2
Carolina Freight Carriers Corp.	88,130	26,516	4,642	5.3	17.5
Chemical Leaman Corporation	123,296	41,276	4,805	3.9	11.6
Coastal Industries, Inc.	44,978	13,618	5,145	11.4	37.8
Consolidated Freightways, Inc.	769,171	344,190	36,011	4.7	10.5
Delta California Industries	57,927	15,191	7,633	13.2	50.2
Eazor Express, Inc.	26,857	8,490	3,135	11.6	36.9
Flexi-Van Corporation	621,942	174,437	5,115	.8	2.9
Gateway Transportation Co., Inc.	53,838	8,570	5,870	10.9	6.8
IU International Corporation	2,229,494	424,680	61,767	2.8	14.5
Leaseway Transportation Corp.	785,686	208,333	9,039	1.1	4.3
Liquid Transporters, Inc.	18,233	9,799	322	1.8	3.3
Lynden Transport, Inc.	18,513	9,691	485	2.6	5.0
Mayflower Corporation	80,453	24,201	213	.3	.9
McLean Trucking Company	283,392	108,984	12,002	4.2	11.0
Mid-American Lines, Inc.	13,640	4,091	1,737	12.7	42.2
Midwestern Distribution, Inc.	38,921	14,361	1,682	4.3	11.7
Murphy Motor Freight Lines, Inc.	37,200	14,616	3,533	9.5	24.1
New Penn Motor Express, Inc.	26,536	18,588	685	2.6	3.7
Overnite Transportation Company	131,308	88,379	7,096	5.4	8.0
Penn Yan Express, Inc.	17,913	5,314	1,595	8.9	30.0
PepsiCo, Inc.	2,887,578	1,263,649	167,797	5.8	13.3
Preston Trucking Company, Inc.	88,296	62,103	969	1.1	1.6
RLC Corp.	375,658	96,009	15,581	4.1	16.2
Refrigerated Transport Co., Inc.	34,677	11,426	3,482	10.0	30.5
Retail Merchant's Industries, Inc.	11,144	1,064	-	-	-
Roadway Express, Inc.	514,699	310,938	26,802	5.2	8.6
Ryder System, Inc.	1,537,191	307,079	29,843	1.9	9.7
Spector Industries, Inc.	157,944	30,791	10,188	6.4	33.1
TeleCom Corporation	105,240	36,325	13,080	12.4	36.0
T.I.M.E.-DC, Inc.	98,372	37,203	6,530	6.6	17.5
Transcon Lines	111,854	45,786	16,662	14.9	36.4
Tri-State Motor Transit Co.	46,204	24,743	9,857	21.3	39.8
U.S. Truck Lines, Inc. of Delaware	94,095	77,800	8,653	9.2	11.1
Wilson Freight Company	84,677	15,632	6,437	7.6	41.1
Yellow Freight System, Inc.	489,140	218,081	34,866	7.1	15.9
	$12,796,218	$4,315,302	$571,520	4.5%	13.2%

Proposed Household Goods Transportation Act of 1979 (S-1798)

The Household Goods Transportation Act was passed by the Senate in 1979 and sent to the House for their approval. The bill reduces the barriers to entry into the household goods industry, provides for greater pricing freedom for the carriers, and reduces regulation of the day-to-day business activities of the household goods industry by the ICC. The desired result of the decreased regulation is greater competition in the household goods moving industry. The bill also provides protection for consumers by the creation of a dispute settlement mechanism for the transportation of household goods that is intended to be inexpensive, expeditious, and easy to use. Among other things, it makes the practice of "weight bumping" (the knowing and willful making or securing of a fraudulent weight on a shipment of household goods) a specific crime.

The bill establishes an entirely new system for ratemaking in the household moving industry. The intention of the Senate is to provide carriers with the maximum opportunity to earn reasonable levels of profit in order to maintain high-quality service to the consuming public and be able to attract and retain capital adequate to continue successful ventures. During the hearings before the Senate, it became clear that in some circumstances rates had been held unduly low by the ICC. This has been especially true in the area of accessorial charges--those charges related to incidental services such as packing, storage, and other nontransportation items charged to household goods shippers.

Accordingly, the Senate has determined that future rate levels charged to household goods movers should be based upon competitive considerations, the actual costs incurred by the carriers, and projected costs for the future. This requires a minimum amount of discretion by the ICC to set the rate levels for household movers.

The bill calls for the establishment of standard rate levels for household goods transportation. These rate levels shall be adjusted every six months to take into account costs that had actually been incurred prior to the adjustment and a reasonable estimate of foreseeable future costs for the next period during which the rate at issue would be in effect. In amending the bill, the Senate has instructed the ICC to adjust the rates and charges for the transportation of household goods in order to include costs that have been incurred, but are not yet reflected in the rates and charges and estimate for foreseeable future costs anticipated for the first semiannual period during which the adjusted rates and charges will be in effect. In making this initial adjustment, the Senate intends for the Commission to continue to provide within the rate levels for reasonable profits for the household goods carriers.

Subsequently, the Senate is directed to address the standard industry rate levels no less than every six months. The ICC will have the ability to adjust the levels on shorter periods as conditions require. The Senate would presume that in times of increasing costs of inputs, such as recently encountered with respect to fuel, the ICC would be receptive to adjusting the rate levels more frequently than every six months, if necessary.

Reports by management

The Foreign Corrupt Practices Act and the general subject of adequacy of internal control continue to be topics of great concern to many corporate directors, officers and audit committees. The SEC's proposed requirements for public reporting on the adequacy of internal control have been delayed and it is uncertain whether final rules will be issued. In response to the SEC's proposal, the Financial Executives Institute urged its members to voluntarily include a management report in their 1979 shareholders reports. It is hoped that this will discourage future government regulation on the subject. Shown below are two reports issued by management from our survey of forty-three companies.

EXAMPLES Reports by management

FLEXI-VAN CORPORATION
(Following Opinion Of Auditors)

Responsibility For Financial Statements

The Auditors' Report shown above states the auditors' opinion as to Flexi-Van Corporation's financial statements viewed in the light of conformity with generally accepted accounting principles. However, management is responsible for the fairness and integrity of the Company's financial statements and operating results. In order to meet this responsibility, management maintains formal policies and procedures that are consistent with high standards of accounting and administrative practices which are regularly communicated to all levels of the organization.

The Audit Committee of the Board of Directors meets periodically with both management and the independent auditors. To ensure complete independence, the public accountants have full and free access to meet with the Audit Committee, with or without management representtives.

PEPSICO, INC.
(Preceding Opinion Of Auditors)

Report Of Chief Financial Officer

To Our Shareholders:

PepsiCo, Inc. is responsible for the integrity and objectivity of its financial statements. To fulfill this responsibility, PepsiCo maintains an accounting system and related controls directed towards the safeguarding of assets and the reliability of financial information. An integral part of such controls is an internal audit program designed to monitor compliance with PepsiCo's policies and procedures.

The international accounting firm of Arthur Young & Company has been retained to examine the financial statements of PepsiCo and to report to our shareholders the results of that examination. Representatives of that firm meet regularly with the Audit Committee of the Board of Directors, composed entirely of non-employee directors, to discuss the results of their audit which includes a review and evaluation of PepsiCo's internal controls and financial reporting. Arthur Young & Company's report to you on our financial statement is presented below.

Executive letters to shareholders

Despite varied styles and points of emphasis, certain topics appeared in almost all of the "Executive Letters to Shareholders" included in the annual reports. Aside from the usual discussion of company performance and goals, motor carrier executives seemed most concerned with inflation and the economy, the high cost of fuel, and the potential effects of proposed deregulation.

EXAMPLES Excerpts from executive messages

ARKANSAS BEST CORPORATION
(Letter To Shareholders)

The Chairman's Message

Years ago Uncle Sam was a slim, stately gentlemen with rugged features and an authoritative beard. He was impressive in his red-white-and-blue formal with tails and a stovepipe hat.

You can still see this patriotic picture of our Uncle at various locations in nearly every community but the truth is, he has developed some bad habits over the years that have altered his appearance. He has gotten terribly nosey and as a result, his eyes and ears have enlarged considerably. Also, he is not working as much these days, although he is eating a great deal more. This has produced a quite hefty waistline, and unfortunately, Uncle's striped trousers have long since ripped at the seams.

The object of his caricature is not to take a slap at America. This is by far the world's greatest nation, and three factors have made it that was: patriotic and innovative individuals, business and its technology, and Uncle Sam in his younger days.

We have progressed to a point, however, where it is now necessary to get the federal government in order. Government is expanding at a ludicrous pace, becoming less efficient, and requiring more tax revenues to finance its activities. In a peacetime situation, federal taxes have never comprised more of the Gross National Product than they do now.

It is unfortunate that as taxes continue to increase, productivity, investment, savings, and ultimately our entire system of incentive and reward are sacrificed. Of the goods and services presently produced in America's free enterprise system, about 40% of their value is taxed away at some point by the federal government.

A distant but applicable example of how incentive works is found in Russia where all farms are owned by the Soviet government with this exception: each worker is permitted to maintain his own small tract and keep all that is produced on it. Although these tracts compose less than 4% of Russia's farmland, they produce nearly a third of the entire Soviet food supply.

Consider this interference with incentive: government subsidizes the importation of expensive Mid-Eastern oil while domestic production is stifled by heavy taxation.

In 1978, the United States recorded the second lowest investment rate of any country in the Western Hemisphere. That in itself is hard to swallow, but here is the final blow: this country also had the lowest productivity rate (output per manhour).

Simply put, the United States is practically the only nation in the world that places such strenuous taxation on capital gains. As "profit" and "progress" become obscene words in America's vocabulary, industrial productivity is at a historical low because the government has abolished the incentives necessary for business and individuals to produce, save, and invest.

An economist at the University of Southern California, a gentleman named Arthur Laffer, developed a common sense theory: tax revenues can actually be increased by lowering taxes. Laffer's idea is based on the simple recognition that decreased taxes create an incentive to produce more goods to sell in the marketplace, thus generating more taxable income.

Productivity is the result of capital investment and is the yardstick used to measure real economic growth. Without capital outlays for more efficient equipment and updated facilities, business has difficulty remaining productive and profitable. Consequently, unemployment increases. Faster write-offs of plants and equipment would allow business to recover costs more rapidly, leaving more after-tax cash for new capital outlays. Depreciation allowances currently do not allow for the replacement of old equipment with inflationarypriced new equipment because the added cost must be derived from retained profits which in turn are dwindling from, what else, inflation.

These tax policies do not stop at penalizing the accumulation of capital and subsequent productivity; they also penalize investment in the economy. In order for an economy to grow, capital must be invested in it. America's outdated Keynesian system of taxation, however, grants insufficient tax allowances for investment and actually rewards consumption.

Instead of spending earnings, which adds to inflation, some choose to invest these funds in our economy. It is very unfair that earnings on these investments be called "unearned income" and treated differently in our tax system. Rather than being "frowned" upon within the tax code, these funds should be recognized as instrumental in creating jobs as well as goods for the marketplace.

Parallel to this reality is government's double taxation of dividends. Industry receives no tax deduction for dividend payments to stockholders. On the contrary, that money is taxed at the industry level. At the investor level, dividends received on investments in industry are again taxed.

Businesses and investors are taxed in other manners too numerous to mention, but the most deceitful sources of tax revenues are hidden, or indirect, taxes. Practically any price tag on any item for sale in American contains the passed-along costs of complying with federal regulatory and taxation mandates. In 1979, American business spent nearly 70 million hours completing 2,125 various government forms, costing the consumer about $1 billion. These facts, however, exclude Internal Revenue Service paperwork which required business and individuals an estimated 613 million hours to complete. By the conclusion of 1979, unelected and unaccountable federal bureaucrats issued several thousand new "paperwork laws," exerting more control than Congress itself.

Is all of this inflationary? Certainly, but the most notorious hidden tax is inflation itself. As I have already indicated, government creates inflation by its own tax policies and the ironic inability to spend tax dollars wisely. To compensate for the difference between income and deficit spending, government's own printing presses create more dollars overnight. With industrial productivity at a minimum and circulated dollars at a maximum, the result is too much money chasing too few goods.

One of the regretful aspects of this monetary abuse is that government reaps windfall profits for its malpractice. How? Every time an American worker receives a wage increase to offset inflation, he is edged into a higher tax bracket. His taxes increase, of course, and inflation quickly erodes any remaining gains in purchasing power. What is left is often a decrease in real income although the worker is earning a higher wage than ever before. Much talked-about tax cuts merely refund bracket inflation and allow nominal decreases while unlegislated taxes continue to increase. Real tax cuts, however, would require government to operate more efficiently and become more accountable.

The obvious solution to the problems I have outlined is a return to responsible government, but that will require responsible voting. Besides the need to conduct itself like an efficient business, government needs to re-tune its obsolete tax policies to the current economy. The incentive for productivity, savings, and investment needs to be returned to business and investors alike. Congress was given the Constitutional responsibility of maintaining the value of our currency, but they have chose to ignore that responsibility.

Unless we as taxpayers and voters correct these dilemmas, the free enterprise system will destruct, and with it will go the loss of personal freedom. Once we put Uncle Sam on a reasonable diet, his work habits will become more efficient, and his physique will show remarkable improvement.

Only then can we mend the seams.

LEASEWAY TRANSPORTATION
(Letter To Shareholders)

I am pleased to report on another year of continued progress and growth at Leaseway Transportation. Net earnings were up 8.7 percent to $42.9 million and revenues were up 14.1 percent to $937.2 million.

Our 1979 results were especially good in view of the fact that markets for several of the important industries we serve were soft. However, as the economy as a whole slowed down, we worked aggressively to contain costs throughout our operations, and returned an after tax profit margin of 4.6 percent. Considering the difficulties of 1979, I think these results are quite good and we expect to improve them even further in the future.

We increased cash dividends over 11 percent in 1979, in keeping with our stated goal of paying out approximately 40 perent of net earnings. This is the seventh consecutive year we have increased the dividend payout, and cash dividends are now at an annual rate of $1.30 per share. The financial condition of the company continues to be sound with a 16 percent increase in shareholders' equity during 1979.

During my term as Chairman, I have heard repeatedly expressions of concern about the amount of debt in our company and about our sensitivity to the rise and fall of interest rates. I would like to take this occasion to tell you, our shareholders, that this need not be a concern. Our contract carriage and leasing customers are contractually committed to pay us the vast majority of funds required to repay our revenue equipment debt and related interest.

While not healthy for the economy, record-high interest rates are providing us with new business opportunities as customers turn to leasing of equipment rather than purchasing.

At the same time we must recover the higher cost in the marketplace to ensure continued growth in earnings.

We at Leaseway Transportation bring a most basic optimism to work with us. We see many opportunities for expanding our business, not only in the markets we already serve, but in new fields of transportation.

In pursuit of these goals, we continue to enhance our capabilities in the analysis of physical distribution/logistics systems. We are currently engaged in comprehensive studies for major new customers, who come to us because they recognize that they're getting not just textbook studies, but planning and recommendations based on practical experience. These studies could lead to the development of significant new business for our company.

With the joint aims of improving our penetration of existing markets and enhancing our ability to absorb sizable acquisitions, we moved toward simplification of our organizational structure in 1979. Historically Leaseway Transportation's customers have enjoyed the benefits of on-the-spot, dedicated responsibility, with service to them provided by local operating subsidiaries.

We do not intend to change this. But we have adopted a new organizational philosophy that will result in restructuring our operations into major business segments. Our new structure will enhance our ability to develop and execute the aggressive marketing plans needed for the changes taking place in the 80's. The implementation of this reorganization has begun and we expect the new structure to be in place before the end of 1980.

At our corporate office, we have added depth to the company's top management with several key appointments. Gerald C. McDonough joined us last year as executive vice president and chief administrative officer. He comes to us from Reliance Electric Company, where he had served as vice president, treasurer and principal financial officer.

Other key people added were a vice president information systems, with responsibility for the greatly expanded data processing and information systems that we will need to support and control future operations and a vice president-human resources, with responsibility for planning future management needs and recruiting the necessary people.

Last year, we were also fortunate to add Harry J. Bolwell, chairman and chief executive officer of Midland-Ross Corporation, to our Board of Directors. Mr. Bolwell has given vital new direction and cohesiveness to Midland-Ross. Under his leadership it has been reshaped as one of the best managed diversified manufacturing companies in the country. We expect that his experience, abilities, and insights will make major contributions to our own future development and growth.

Let me now turn to the current business environment and our outlook. We continue to hear a great deal about deregulation of the trucking industry. Bills have been introduced in both houses of Congress. The form of any final bill and indeed, whether any bill at all will be passed, is unpredictable.

Nonetheless, we welcome any change that will permit us to operate more efficiently or compete more aggressively. Most of the provisions in these bills pertaining to our motor carriage operation would affect us positively. Even without passage of new legislation, we believe our ability to compete more effectively in the future is assured by regulations already adopted by the Interstate Commerce Commission.

Leaseway Transporation's principal business is in contract and dedicated transportation and not common carriage, which is provoking the vast amount of the deregulatory controversy. I.C.C. regulations requiring rate approvals affect only common carriers. By contrast, our contract carriers deal directly with our customers on pricing and as a result, have generally been able to keep up with increased costs of doing business, even in view of last year's rapid rise in fuel prices. Fuel supplies, incidentally, have been adequate, and we expect no serious shortage of fuel for the foreseeable future.

The economic outlook remains mixed. Officially, the country isn't in recession because we have not had two consecutive quarters of no growth in the Gross National Product. But major segments of the economy are going through serious adjustment problems. These include the automobile and construction industries and to a lesser extent consumer durables, all of which are important to us.

Inflation is a fundamental threat to the stability of our national economy. A new reporting requirement, just imposed on large publicly held companies by the Financial Accounting Standards Board, requires us to compute and report our operating results and financial condition as impacted by some of the effects of inflation. We feel the approach taken by FASB is grossly incomplete and produces information which could easily be misleading. For example, we are required to report the negative effects of inflation on our depreciation expense and net earnings but the impact of inflation on the repayment of our debt and on our income tax burden is omitted on the earnings statement. While we applaud any serious and well reasoned attempt to combat inflation, we doubt that this reporting requirement will prove useful.

Despite these difficulties we have prospered. We believe the diversity of the industries we serve has sustained our ability to grow in revenues and earnings and we intend to broaden our base of customers. It is true that our rate of growth during 1979 slowed and, at the moment, our best expectation for 1980 is that we may start slowly, but that we will pick up the pace as the year goes on. We do think that the year as a whole will see us well past the $1 billion revenue mark and net earnings should reach another historic high.

Leaseway Transportation's 1979 record performance caps two decades of growth and progress. The company was organized in 1960 and went public in 1961. That year, total revenues was just $65.8 million. By 1971 revenue had jumped to $330 million. The company also grew in its perception and understanding of a rapidly changing marketplace.

No longer did we serve only the trucking management of industry. Increasingly, we found ourselves interfacing with the physical distribution and logistics management of companies whose interest went beyond operating trucks. As the management of physical distribution in industry grew and matured, so did our ability to serve them. Today, our capabilities in serving logistics management make us a market leader. From planning through implementation, we have the knowledge and the tools to provide our customers with the optimum in transportation efficiency.

We have gained recognition as a leader in the discipline of physical distribution management, achieving this position through conscious planning. Today, Leaseway Transportation can provide its customers with not only a full range of transportation, warehousing and inventory control functions, but with consulting, planning and implementation as well.

Going into the 80's, Leaseway Transportation recommits itself to accelerating growth, with the interim goal of $2 billion in annual revenue by the middle years of the decade and a corresponding growth in earnings.

Early in our history, we recognized that business would place increased reliance on the private and contract carriage portion of highway transportation. We are also experiencing an increased recognition by business of the advantages to be gained by contracting with a specialist to provide the increasing number of services necessary in complete physical distribution networks.

The significant cost reduction and profit improvement opportunities available through the application of physical distribution management techniques are becoming apparent to both manufacturers and merchandisers.

As long as the country continues to struggle with inflation, the pressures on corporate profits will continue. New technology and fundamental shifts in the marketplace will create new businesses and new profit opportunities. But for most companies, it will take superior management of every aspect of their businesses to stay even or show improvement. Thus, management will be looking at every facet of its operations in terms of doing business at the lowest total cost.

Costs of physical distribution of goods are estimated at 20 percent of the Gross National Product, or about $400 billion annually, and some 40 percent of this goes for transportation of these goods. Manufacturing companies spend over 13 cents of every sales dollar on distribution activities. It's estimated that merchandising companies are spending 25 cents of every sales dollar, or more, for the same activities.

It is clear that better control of the movement, storage and handling of goods has potential for significant savings and Leaseway Transportation's physical distribution services are helping realize that potential every day.

We analyze and define the costs in the flow from the raw material stage to delivery to the ultimate consumer, weigh the implications of available tradeoffs between inventory and service levels, and design and operate practical programs to achieve maximum profit by means of lowest total cost physical distribution.

Leaseway Transportation is aware of the increasng importance of strategic planning, with expansion beyond its present service lines becoming a high priority. We have begun in-depth studies of potential areas for growth and are closely monitoring trends in all phases of transportation and distribution. As a result, several new service lines with strong customer demand and good profit opportunities have been identified. They are now undergoing careful consideration as possible additions to our business.

Through new national advertising in business and trade publications and our new corporate identification, now being seen on more and more of our vehicles across the country, we continue to broaden our audience and customer awareness.

Leaseway Transportation has achieved enviable growth and returns in the past. We remain committed to similar growth and returns in the future.

Our future is very exciting and the process of planning that future and executing the plans is consuming to all of us in management. But, I would like to pause here and reflect a little on our past, as the chief executive officer given the privilege of leading this company into the future.

As we prepare to enter our 20th year as a public company I would like to pay tribute to William J. O'Neill, Sr., the chief executive officer who was the principal force in organizing this company in 1960 and taking it public in 1961. He guided its growth as chief executive from 1960 to 1975. Without his vision, drive and commitment there would have been no Leaseway Transportation as it is today.

Our shareholders, our employees and indeed our customers owe him thanks for his leadership. His efforts and those of other members of the O'Neill family brought us to where we are today--poised for our first billion-dollar revenue year, a leader in our industry, specially positioned to meet the challenges of the 80's and for continued growth.

I would like to thank all of our shareholders for their continued support, our customers for their business, and our employees for their successful efforts. Leaseway Transportation has turned in superior performances in the past, and we intend to do nothing less in the future.

MIDWESTERN DISTRIBUTION, INC.
(Letter To Shareholders)

For Midwestern Distribution, Inc. the year 1979 was marked by rapidly rising operating costs and a weakening economy. Operating results for the last 6 months were particularly hard hit by the softening in demand for our service. Despite difficult operating conditions, 1979 was a year of significent progress for your company. We enter the next decade poised for future growth.

Midwestern's consolidated revenues for the 12 month period ended December 31, 1979 increased to $74,759,149, up from consolidated revenues of $72,443,870 in 1978. Net earnings declined to $2,009,345 or $1.14 per share, compared to net earnings of $2,914,455 or $1.66 per share, for the year ended December 31, 1978. The decline in net earnings was accelerated by a significantly higher effective tax rate of 44.4% in 1979 versus an effective tax rate of 29.2% in 1978.

Pre-tax earnings as a percentage of operating revenues were down in 1979 as cost pressures, combined with a slowing of business volume, significantly affected profit margins. Throughout the first six months of 1979, business demand was very strong and margins were improved significantly over prior year figures.

At mid-year, rising prices and restricted availability of fuel touched off a series of localized truck strikes throughout the country. The Interstate Commerce Commission initiated a fuel cost pass-through procedure which was passed on to our customers in the form of a fuel surcharge. This eased the labor unrest. However, business demand did not recover from the disruption and during the last half of 1979, volume and productivity was down in excess of 15%.

At the same time, operating costs other than fuel were escalating very rapidly. With soft demand and rising prices, it was not possible to recover high costs without the risk of additional deterioration of business demand. Therefore, operating margins for the last 6 months of 1979 were very disappointing. During the 4th quarter, business volume firmed somewhat and your management moved to recover rising costs through a series of rate increases to be filed during the 1st and 2nd quarters of 1980. At the same time, marketing efforts were intensified and new market opportunities explored.

Early in 1979, Midwestern planned a 100 unit expansion in its contractor fleet by ordering 100 new power units for delivery in June and July. That expansion plan was eliminated in the second quarter when questions regarding energy availability and the strength of our economy forced a re-evaluation of the Company's equipment requirements. Cancellation of that equipment order affected Midwestern's subsidiary, B&D Motor Parts, Inc. B&D had no new truck sales and revenues in 1979 were much lower than prior year figures.

B&D did continue to provide valuable parts and repair services to Midwestern's fleet of independent contractors, as well as the Company's trailer fleet. Because the near term future of the economy remains cloudy, Midwestern has not ordered any additional equipment and we expect no equipment additions until economic conditions warrant.

The availability and price of energy is a major issue to be confronted in the 1980's. Thus far, Midwestern's over-the-highway units have experienced no difficulty in obtaining sufficient fuel. However, fuel prices have risen dramatically from an average of $.57 per gallon at the beginning of 1979 to $1.06 per gallon at year end. The Commission's fuel surcharge procedures have allowed Midwestern to pass most of our contractors' higher fuel cost on to our customers.

In 1979, a great deal of the Company's efforts were directed at the development of an exciting new concept in distribution, Intermodal Systems, Inc. Midwestern is expecting a major revenue contribution to come from Intermodal Systems, Inc. This wholly owned subsidiary offers a combination truck-rail-truck distribution service which substantially reduces energy costs as compared to all truck service. Intermodal began operations in April of 1979 between Northern California and five Great Lake States utilizing rail terminals in Chicago, Illinois and Oakland, California. In this initial test market, we proved the level of service necessary to be competitive with highway service could be maintained. By mid-year, Intermodal had opened a terminal in Los Angeles, California and had expanded its test market distributing fresh produce moving in temperature control equipment. The challenges of transporting delicate products such as fresh fruits and vegetables are more severe than basic commodities. However, after one season of experience in distributing fresh produce, we are convinced this market offers an unlimited potential and should provide significant growth through the next decade.

At year end, Intermodal had an operating structure firmly in place. Equipment is on order to make a major contribution to operating results in the last half of 1980. Terminals are operating at Chicago, Illinois; Memphis, Tennessee; Dallas and Houston, Texas; Los Angeles and Oakland, California.

Intermodal has in service 285 rail equipped trailers, an increase of 100 trailers since December of 1979. In addition, Intermodal will add in the second quarter of 1980, 100 trailers, bringing our total trailer fleet to 385 units by mid-year. Of these 385 units 200 trailers are temperature control units and 185 are dry freight vans. The temperature control equipment is specifically designed for the fresh foods industry.

Intermodal has developed computerized operating controls that provide a totally responsive service to our customers. Because we maintain a central control on each shipment our customers receive the same specialized service as provided by Midwestern's highway operation, along with trememdous savings in fuel. Intermodal's truckrail-truck service has saved an estimated 1,500,000 gallons of diesel fuel in its first 12 months of existence. At projected operating levels, Intermodal estimates it will save customers in excess of 4,000,000 gallons in 1980.

In 1979, the Interstate Commerce Commission continued its attitude of easing restrictions with respect to issuing motor carrier authority. During the year, Midwestern filed and processed a record number of operating authority applications and received 55 new certificates of authority, including a major nationwide authority to distribute nonferrous metals between points in the United States.

In 1979, the issue of regulatory reform continued to be discussed and various proposals were offered. However, at this time, no firm actions have been taken and we cannot project what will ultimately happen to government regulation of the motor carrier industry. It is our opinion that less restrictions on motor carier entry serve to assist Midwestern in its effort to expand its service to new markets and customers.

In each quarter of 1979, the Directors of Midwestern Distribution, Inc. reviewed the Company's dividend. In 1979, the Board declared dividends equal to $.51 per share. This was an increase from cash dividends declared in 1978 of $.41 cents per share. The Company's dividend policy to conduct quarterly reviews of the corporation's progress and financial requirements and adjust dividends accordingly.

Management's discussion and analysis of operations

Table 5 indicates the additional disclosure requirements the surveyed companies included in their 1979 reports as a result of ASR No. 159 and SEC Release No. 34-11079.

TABLE 5. MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE SUMMARY OF OPERATIONS

	No. of Surveyed Companies
Discussion covers the three most recent years	38
Discussion covers only the current year	3
Discussion not included in shareholders report	2
	43

EXAMPLES **Management's discussion and analysis of operations**

EAZOR EXPRESS, INC.
(Five-Year Summary Of Operations)

	Years Ended December 31,				
	1979	1978	1977	1976(a)	1975(a)
Operating Revenues	$61,181,624	$60,270,473	$55,218,839	$46,794,951	$37,532,788
Operating Expenses	61,417,867	58,407,879	53,040,117	44,576,860	35,771,658
Operating Income (Loss)	$ (235,243)	$ 1,862,594	$ 2,178,722	$ 2,178,091	$ 1,761,130
Nonoperating Income (Expense)					
Interest Expense	(1,275,762)	(1,010,389)	(819,140)	(859,814)	(1,143,474)
Other (Net)	232,178	150,849	46,821	221,829	326,920
Income (Loss) Before Income Taxes and Extraordinary Credits	$(1,279,827)	$ 1,003,054	$ 1,406,403	$ 1,580,106	$ 944,576
Provision (Credit) For Income Taxes	(546,000)	248,000	531,000	397,000	220,000
Income (Loss) Before Extraordinary Credits	$ (733,827)	$ 755,054	$ 875,403	$ 1,183,106	$ 724,576
Extraordinary Credits (b)	-	-	-	-	51,838
Net Income (Loss)	$ (733,827)	$ 755,054	$ 875,403	$ 1,183,106	$ 766,414
Earnings (Loss: Per Share of Common Stock Before Extraordinary Credits (c)	$ (.72)	$ .75	$ .87	$ 1.17	$ .72
Extraordinary Credits	-	-	-	-	.05
Net Income (Loss)	$ (.72)	$ .75	$ .87	$ 1.17	$ .77
Cash Dividends Per Share of Common Stock (c)	$ .24	$ .24	$ .24	$ .27	$ .17

Notes To Summary Of Operations:

(a) Restated for change in accounting for leases under Statement of Financial Accounting Standards No. 13. The effect of this change was to reduce previously reported income before extraordinary credits and net income by $36,900 ($.04 per share) in 1976 and $60,500 ($.06 per share) in 1975.

(b) The extraordinary credits reported in 1975 relate to the reduction of income taxes due to the utilization of tax loss carryforwards.

(c) Each share of Class A Common Stock is convertible at the option of the holder into two shares of Common Stock. Holders of Class A Common Stock are not entitled to receive cash dividends.

Earnings per share of common stock is calculated on the basis of 1,012,500 shares outstanding in all years (assuming full conversion of Class A Common Stock together with the common shares outstanding).

(d) See Notes to Financial statements for a summary of significant accounting policies and other pertinent financial information.

Management's Discussion And Analysis Of Summary Of Operations

1979 Compared to 1978

Operating revenues for 1979 increased 1.5% from $60,270,000 to $61,182,000. This increase reflects an increase of 8.7% in rates, offset by a 7.2% decrease in tonnage.

Operating expenses increased 5.1% from $58,408,000 in 1978 to $61,418,000 in 1979. Employee compensation in the form of salaries, wages, and related expenses increased $1,077,000 or 1.8%, resulting from contract settlements with the Teamsters and other unions. Remaining operating expenses increased $1,933,000 or 3.3%, resulting from inflationary pressure on all costs. The percentage increases were significantly lower than normal inflation due to management's efforts to reduce costs in view of declining tonnage shipped.

Nonoperating interest expense increased by $265,400 or 26.3%. Interest expense increased in 1979 because of the increase in the prime rate even though our average outstanding borrowings declined. A substantial portion ($5,299,000 as of December 31, 1979) of our long-term debt bears interest at 1/2% over the prime rate. Other nonoperating income increased $81,300 or 53.9% primarily due to increased interest income on our certificates of deposit.

The credit provision for Federal income taxes reflects the nonoperating loss incurred in 1979, which will be carried back to previous years' tax returns.

Overall the net loss of $734,000 in 1979 resulted primarily from inflationary increases in operating costs which outpaced cost based rate increases. In addition, the Company and the industry, as a whole, experienced strikes by the Teamsters and Steel Haulers, and a decline in freight tonnage (particularly in the fourth quarter) due to the downward trend in the economy.

1978 Compared To 1977

Operating revenues increased 9.1% from $55,219,000 to $60,270,000. This increase reflects an increase in freight tonnage and mix ($1,657,000) and rate increases ($3,395,000).

Operating expenses increased 10.1% from $53,040,000 to $58,408,000 in 1978. Of this increase approximately $3,347,000 or 6.3% was due to an increase in salaries, wages, and related expenses. Other operating expenses increased approximately $2,021,000 or 3.8% due to inflationary pressure on all costs.

Interest expense increased $191,000 or 23.3% due to a combination of an increase in long-term debt and the steady increase in prime interest rate throughout 1978. Nonoperating income increased $104,000 primarily due to the increased interest income on our certificates of deposit.

Income taxes in 1978 decreased $283,000 or 53.3% when compared to 1977. This decrease is due to lower taxable income and a lower effective tax rate. The lower effective tax rate resulted from an increase in investment tax credits.

General All Years Shown

Net income for the year 1975 was enhanced by the inclusion of an extraordinary credit item due to utilization of tax loss carry forwards. Net income for the years 1975 through 1978, was affected by varying effective income tax rates attributable primarily to the availability or unavailability of investment tax credits.

TRI-STATE MOTOR TRANSIT CO.
(Ten Year Consolidated Summary Of Operations--only four years presented in this example)

	1979		1978		1977		1976	
Operating Revenues	(000)	%	(000)	%	(000)	%	(000)	%
Explosives--Government	$ 14,749	14	$ 14,135	16	$ 16,025	21	$ 13,847	21
--Commercial	7,142	6	6,321	7	6,213	8	5,679	9
--Total Explosives Revenues	21,891	20	20,456	23	22,238	29	19,526	30
Nuclear	8,085	8	6,552	7	5,539	7	5,396	8
Aerospace	13,866	13	9,738	11	7,477	10	5,121	8
Heavy Haul	59,026	55	48,721	54	37,902	49	29,520	45
Pipe Stringing					927	1	2,394	4
Other	4,358	4	3,968	5	2,801	4	3,210	5
Total Operating Revenues	107,226	100	89,435	100	76,884	100	65,167	100
Operating Expenses	100,958		83,452		71,202		62,086	
Other (Income) Expenses								
Interest Expense	1,357		855		574		716	
Other	(891)		(247)		(494)		(519)	
Provision for Income taxes	2,822		2,620		2,745		1,311	
	104,246		86,680		74,027		63,594	
Income (Loss) Before Extraordinary Items	2,980		2,755		2,857		1,573	
Extraordinary Items, Less Applicable Income Tax								
Net Income (Loss)	$ 2,980		$ 2,755		$ 2,857		$ 1,573	
Net Income (Loss) Per Share (Before Extraordinary Items)	$2.33		$2.07		$2.02		$1.13	
Extraordinary Items								
Net Income Per Share	$2.33		$2.07		$2.02		$1.13	
Dividends Per Share	$ .65		$ .60		$ .55		$ .53-1/3	
Average Number of Shares Outstanding(1)	1,279,000		1,328,000		1,411,000		1,392,000	
Cash Flow (000)	$ 4,595		$ 4,396		$ 4,585		$ 3,438	
Operating Ratio	94.2%		93.3%		92.6%		95.3%	
Working Capital (000)	$ 4,777		$ 3,092		$ 3,385		$ 2,501	
Property Plant & Equipment--Net (000)	$ 17,030		$ 16,241		$ 14,867		$ 14,336	
Operating Rights (000)	$ 9,857		$ 9,371		$ 8,973		$ 9,125	
Total Assets (000)	$ 46,204		$ 40,847		$ 36,832		$ 34,687	
Number of Trailers--Owned	2,127		2,049		2,067		2,159	
Number of Trailers--Leased	250		250		100		100	
Total Number of Trailers	2,377		2,299		2,167		2,259	
Number of Tractors--Owned (does not include trucks)	177		299		239		251	
Number of Tractors--Leased (with drivers)	985		874		745		663	
Number of Tractors--Dromedaries (owned)	68		68		71		73	
Number of Tractors--Dromedaries (leased)	16		17		29		40	
Total Number of Tractors	1,246		1,188		1,084		1,027	
Miles Traveled (000)	98,347		91,766		83,541		73,872	
Loaded Mileage % of Total Mileage	82%		82%		80%		80%	

Management's Discussion And Analysis Of Consolidated Summary Of Operations 1978-1979

Operating Revenues

Operating revenues for 1979 exceeded 1978 revenues by $17.8 million or 19.9%. Revenues for 1978 exceeded 1977 levels by $12.6 million or 16.3%. The principal factors influencing revenue changes were as follows:

	Operating Revenue Increases (Decreases) Over Prior Year (in thousands of dollars) 1978	
Non-transportation revenues	$(872)	(1.1)%
Freight rate increases	3,689	4.8
Increase in loaded miles	10,472	13.6
Change in commodity mix and other	(738)	(1.0)
	$ 12,551	16.3 %

	Operating Revenue Increases (Decreases) Over Prior Year (in thousands of dollars) 1979	
Non-transportation revenues	$(163)	(.2)%
Freight rate increases	10,079	11.3
Increase in loaded miles	6,567	7.3
Change in commodity mix and other	1,308	1.5
	$ 17,791	19.9 %

Non-transportation revenue consists of subsidiary activity. The discontinuance of pipe stringing operations in July, 1977, accounts for the decrease in 1978.

Each area of commodity mix received rate increases in 1978 and 1979 making up approximately 4.8% and 6.1% of increased revenues. An additional $4.6 million or 5.2% was received from fuel surcharge rates in 1979 making a total increase of 11.3% over 1978.

Transportation volume, measured in loaded miles, has continued to make a significant contribution to revenue increases for both years. Expansion of our contract operator fleet has played a primary role in achieving greater volume levels.

All commodity areas have shown substantial growth during each year with the exception of government explosives which decreased in 1978.

Operating Expenses

Operating expenses increased $12.2 million or 17.2% during 1978 compared to $17.5 million or 21.0% in 1979. Increased costs are summarized as follows:

	Operating Expense Increases (Decreases) Over Prior Year (in thousands of dollars) 1978	
Salaries, wages, fringes, etc.	$ 1,856	2.6%
Fuel, maintenance, etc.	1,041	1.5
Insurance	603	.9
Communications, utilities	569	.8
Purchased transportation	7,792	10.9
Other	388	.5
	$12,249	17.2%

	Operating Expense Increases (Decreases) Over Prior Year (in thousands of dollars) 1979	
Salaries, wages, fringes, etc.	$ 757	.9%
Fuel, maintenance, etc.	1,343	1.6
Insurance	157	.2
Communications, utilities	(5)	
Purchased transportation	15,016	18.0
Other	238	.3
	$17,506	21.0%

The rise in salary, wage and employee related costs in both years can be attributed to wage increases and a larger number of support personnel required for additional terminals and a greater volume of business. A decline in the number of company drivers during 1979 partially offset other personnel costs.

Fuel costs rose dramatically during 1979 making up the majority of increased expenditures for the fuel and maintenance category. Decreased company tractor mileage and fuel surcharge revenue have helped lessen the effect of spiraling price increases. Expenditures for maintenance and other motor vehicle costs increased in 1978 and 1979 with volume and inflation. Insurance increased directly with additional volume in 1978 and 1979. A larger increase in 1978 resulted from higher rates. Expansion and updating of our communications system resulted in a general increase for services in 1978, but realignment of service in 1979 has increased efficiency and reduced costs.

Purchased transportation makes up the majority of operating expense which consists of payments made to contract operators and rental of other revenue producing equipment. The number of leased units and volume of business handled by contract operators had continued to grow during both years. In addition to rate increases, approximately $3.9 million dollars from fuel surcharges were passed on to contract operators in 1979.

Other Income And Expenses

A loan obtained during the second quarter of 1978 to purchase 240,000 shares of Tri-State stock for the employee and contract operator stock purchase plan sharply increased interest expense for 1978. Additions made to the revolving credit loan and increases in the prime interest rates have significantly increased interest expense in 1978 and 1979. At the end of 1978 the prime interest rate was 12-1/4% compared to 15-3/4% at the end of 1979.

Gain on sale of equipment was $447,000, $153,000 and $629,000 for the years 1977, 1978 and 1979, respectively.

Income Taxes

The income tax rate for 1979 remained approximately the same as the 1978 rate. Refer to Note 2 of Notes to Consolidated Financial Statements for further explanation of income taxes.

Net Income

The $225,000 increase in net income for 1979 is a result of increased volume of business and gain on sale of equipment. The $102,000 decrease in net income for 1978 resulted from increased interest expense and less gain on sale of equipment.

Disclosure of supplemental stock and dividend information

The SEC requires that the principal market upon which any voting securities are traded be disclosed in the annual shareholders report along with the price range of the stock and dividends paid for each quarterly period for the past two fiscal years. Thirty-seven of the surveyed companies disclosed both stock and dividend information, four disclosed only stock information, and two companies made no disclosure.

EXAMPLES Disclosure of principal market, quarterly stock price ranges and dividends paid by quarter

MAYFLOWER CORPORATION
(Common Stock Data)

	Cash Dividends*	
	1979	1978
First Quarter	$.14	$.13
Second Quarter	.14	.13
Third Quarter	.14	.13
Fourth Quarter	.15	.14

*Adjusted for a 5% stock dividend payable December 28, 1979 to shareholders of record December 10, 1979.

	Stock Price Range 1979		Stock Price Range 1978	
	Bid Price	Ask Price	Bid Price	Ask Price
First Quarter	7-5/8-6-1/2	8-1/8-7	9-1/8-8-1/8	9-5/8-8-5/8
Second Quarter	7-1/4-6-5/8	7-3/4-7-1/8	12-1/4-8-7/8	12-3/4-9-3/8
Third Quarter	7-1/4-6	7-3/4-6-1/2	11-1/4-9-7/8	11-3/4-10-3/8
Fourth Quarter	7-1/2-5-7/8	8-6-3/8	9-1/8-7-3/8	9-5/8-7-7/8

NEW PENN MOTOR EXPRESS
(Market Information)

Price Range Common Stock(1)

	Bid Prices		Asked Prices	
1979	High	Low	High	Low
First Quarter	10-3/4	10-1/4	11-3/4	11-1/4
Second Quarter	11	10	12	11
Third Quarter	13	10	14	11
Fourth Quarter	13-1/2	11-3/4	14-1/2	12-3/4

	Bid Prices		Asked Prices	
1978	High	Low	High	Low
First Quarter	11-1/4	9-1/2	12	10-1/4
Second Quarter	11-1/4	10	12	10-3/4
Third Quarter	11-1/4	10	12	10-3/4
Fourth Quarter	11-1/4	9-3/4	12-1/4	10-3/4

(1) New Penn Motor Express, Inc. common stock as traded in the Over the Counter Market in the years indicated above as reported by the National Association of Securities Dealers Automated Quotation (NASDAQ) System.

Dividends

	1979	1978
First Quarter	$ .12	$ .10
Second Quarter	$ .12	$ .10
Third Quarter	$ .13	$ .11
Fourth Quarter	$ .13	$ .11

SECTION E

Balance Sheet

Balance sheet title

All companies in the survey used the title "Balance Sheet" or "Consolidated Balance Sheet."

Cash

In the reports surveyed a number of the captions used to describe cash included some reference to temporary investments or inclusion of current investments of a form similar to cash. Table 6 summarizes the captions used by the surveyed companies.

Nine reports surveyed used a separate balance sheet caption for certificates of deposit or temporary cash investments.

Disclosure of compensating balances is required by both the SEC and the ICC. A "compensating balance" is defined as that portion of any demand deposit (or any time deposit or certificate of deposit) maintained by a corporation (or by any person on behalf of the corporation) with a lending institution under an existing borrowing arrangement. Such arrangements would include both outstanding borrowings and the assurance of future credit availability.

Footnote disclosure is required for all compensating balance arrangements, including those not reduced to writing. The compensating balance should be segregated on the balance sheet only if compensating balances are legally restricted or are related to long-term borrowing arrangements and can be computed as a fixed amount at the balance sheet date. The current or noncurrent classification of the deposit generally should be the same as the related debt.

Table 7 indicates the type of compensating balance disclosure made by the surveyed companies.

The disclosure was generally included in the long-term debt footnote; however, in two instances, there were separate footnotes on compensating balance arrangements. One report segregated a compensating balance on the balance sheet.

TABLE 6. CASH CAPTIONS

	No. of Surveyed Companies
Cash	28
Cash and temporary investments	3
Cash, including certificates of deposit of $XXXXXX	7
Cash and short-term investments	3
Cash and cash equivalents	2

TABLE 7. COMPENSATING BALANCE DISCLOSURE

	No. of Surveyed Companies
Footnote disclosure of terms or amounts	30
Footnote disclosure that no material compensating balances exist	3

EXAMPLES Compensating balance disclosure

LEASEWAY TRANSPORTATION CORP.
(Equipment Financing Obligations Footnote)

Equipment Financing Obligations
These obligations include installment notes, purchase contracts and commercial paper. The notes and contracts are collateralized by revenue equipment with a cost of $565 million at December 31, 1979 and by revenue from leases. Such obligations are owed to the following (amounts in thousands):

	1979	1978
Banks	$213,171	$172,780
Equipment manufacturers	138,068	155,669
Others	25,020	
	$376,259	$328,449

The balance is due as follows: 1980-$103,283 (current portion); 1981-$110,730; 1982-$91,578; 1983-$40,138; 1984-$24,665; after 1984-$5,865.

The interest rates on these obligations range from 6.3% to 15.8% at December 31, 1979. The average interest rates incurred on equipment financing obligations and other long-term debt were 9.7% for 1979 and 8.5% for 1978. Under informal arrangements with certain banks, the Company has agreed to maintain compensating cash balances of approximately $5 million relating to its borrowings.

The Company began issuing commercial paper in December, 1979. At December 31, 1979, $10,020,000 of commercial paper had been issued with interest rates from 14 1/4% to 14 3/8%. A commercial paper credit facility permits the Company to refinance up to $50,000,000 of commercial paper into long-term equipment financing obligations. Accordingly, the commercial paper at December 31, 1979 has been classified as long-term debt because the Company intends to refinance this obligation by issuing commercial paper or long-term equipment financing obligations.

TELECOM CORPORATION
(Cash Footnote)

Cash

The Company has informal agreements with banks which provide that it will maintain compensating cash balances at such banks equivalent to 10% of the outstanding indebtedness to the banks, plus 10% of the committed sum. Such compensating balances totaled $1,600,000 and $2,135,000 at December 31, 1979 and 1978, respectively.

FLEXI-VAN CORPORATION
(Long-Term Debt Footnote)

The Company has a revolving credit agreement which allows for borrowings of up to $100,000,000 including commercial paper issued and currently provides for interest at the base rate of the principal bank. In addition, the agreement provides for 1/2% fee on the unused portion of the total commitment. The average interest rate incurred during 1979 was 14%. At the option of the banks or the Company, the agreement may be subject to declining loan ceilings, upon specified notice, and the loan repaid over a term of five years. As part of the agreement, the Company must maintain average compensating balances equal to a percentage of the commitment plus a percentage of the average loan amount outstanding. Such average balance requirement amounted to $9,600,000 at December 31, 1979. If the Company chooses not to maintain these compensating balances at the levels specified in the agreement, it is then required to pay a balance deficiency fee on the deficient amount.

RYDER SYSTEM, INC.
(Long-Term Debt Footnote)

There were no formal compensating balance requirements during 1979 and 1978 and there were no cash balances subject to withdrawal restrictions. However, the company has informally agreed to maintain average balances equal to a percentage of the amount borrowed. Such average compensating balance requirements are based on bank-collected funds. The amount of bank-collected funds met the compensating balance requirements in 1979 and 1978.

Investments

Short-term investments were generally included in the current assets section of the balance sheet; however, some investments in marketable securities were shown as noncurrent assets. Table 8 summarizes the descriptions used in reporting investments.

FASB Statement No. 12, "Accounting for Certain Marketable Securities," requires that marketable equity securities be carried at the lower of aggregate cost or market value. Realized gains and losses are to be included in net income in the period incurred. Any change in the excess of aggregate cost over market value for securities classified as current assets should be included in the determination of net income; however, any change in such excess for noncurrent securities should be included as a separate item in the equity section of the balance sheet. Subsequent recoveries in market price (up to the amount of original cost) should be credited to income in the case of securities classified as current and for securities classified as noncurrent as a reduction of the accumulated net unrealized loss shown in the equity section of the balance sheet.

TABLE 8. INVESTMENTS CAPTIONS

	No. of Surveyed Companies		No. of Surveyed Companies
Current asset:		Noncurrent asset:	
Marketable securities	4	Investments or investments and other assets	5
Short-term or temporary investments	6	Investment in securities	2
U.S. Government securities or similar caption	1	Investment in other	7

EXAMPLES Investments

TELECOM CORPORATION
(Balance Sheet)

	1979	1978
	(In Thousands)	
Current Assets		
Marketable securities (Note 4)	$ 106	$ 1,143
Noncurrent Assets		
Investments		
By SBIC subsidiary at market or fair value (cost--1979, $4,871,000; 1978, $4,385,000) (Note 5)	$11,263	$10,740
Investments in and advances to 50% and less--owned companies (Note 6)	1,450	2,136
Other investments	646	35
	$13,359	$12,911

(Marketable Securities Footnote)

Marketable Securities

The aggregate cost of marketable securities at December 31, 1979 and 1978 was $106,000 and $1,143,000, respectively; the aggregate market value on those dates was $106,000 and $1,317,000, respectively. Gross unrealized gains and losses at December 31, 1979 were not material. During 1979 and 1978, the Company realized gains from the sale of marketable securities of $130,000 and $145,000, respectively.

At December 31, 1978, there were 132,000 shares of Spector Industries, Inc. (Spector) stock, with a cost of $1,123,000, included in marketable securities. Certain transactions were made during the year resulting in a balance of 79,500 shares, with a cost of $611,000, of Spector stock at year end. Since it is the intention of the Company to merge with Spector (See Note 16), the investment in Spector stock has been reclassified to other investments.

(Notes to Financial Statements)

Investments by SBIC Subsidiary

Investments of the Company's SBIC subsidiary with cost reconciled to value consisted of:

	Cost Basis	Unrealized Appreciation (In Thousands)	Unrealized Depreciation	Value Basis
1979:				
Notes receivable	$ 422			$ 422
Convertible debt securities of small business concerns	1,960		$200	1,760
Capital stock of small business concerns	3,031	$3,666	13	6,684
Warrants, options and other stock rights acquired	48	2,961	22	2,987
	5,461	6,627	235	11,853
Less current portion of notes and debt securities	590			590
	$4,871	$6,627	$235	$11,263
1978:				
Notes receivable	$1,098			$ 1,098
Convertible debt securities of small business concerns	1,503			1,503
Capital stock of small business concerns	2,742	$4,655	$415	6,982
Warrants, options and other stock rights acquired	32	2,117	2	2,147
	5,375	6,772	417	11,730
Less current portion of notes and debt securities	990			990
	$4,385	$6,772	$417	$10,740

Such value is exclusive of assets acquired in liquidation consisting primarily of notes receivable of $361,000 and $396,000 at 1979 and 1978, respectively, which were included in other assets.

The changes in net unrealized appreciation on SBIC investments for 1979 and 1978 consisted of:

	Change in Unrealized Stockholders' Equity		
	Appreciation	Depreciation (In Thousands)	Net
Balances at January 1, 1979	$6,772	$417	$6,355
Balances at December 31, 1979	6,627	235	6,392
	(145)	182	37
Less provision for deferred income taxes on change in appreciation on investments	(175)	3	(172)
Net change in unrealized appreciation and depreciation	$ 30	$179	$ 209
Balances at January 1, 1978	$3,086	$426*	$2,660
Balances at December 31, 1978	6,772	417	6,355
	3,686	9	3,695
Less provision for deferred income taxes on change in appreciation on investments	1,106	6	1,112
Net change in unrealized appreciation and depreciation	$2,580	$ 3	$2,583

*Includes $22,500 unrealized depreciation on assets acquired in liquidation consisting primarily of notes receivable included in other assets.

Income from SBIC operations was composed of the following:

	1979	1978
	(In Thousands)	
Gains on sale of investments	$4,572	$ 949
Loss on disposition of investments	(326)	(83)
Interest income	760	714
Other income, net of other expense	65	159
Interest expense	(367)	(387)
	(265)	(256)
General and administrative expense	$4,439	$1,096

At December 31, 1979, investments in debt securities, at value, included $1,749,000 of subordinated notes, $748,000 of such notes were collateralized by various mortgages, stock and other assets.

Significant investments by industry category, at value, were as follows, with the number of companies included therein shown parenthetically:

	1979
	(In Thousands)
Computer related equipment and systems (2)	$ 1,190
Service industries (4)	3,411
Miscellaneous manufacturing (10)	2,696
Semiconductor manufacturing (1)	3,314
Retail trade (2)	397
Other (2)	845
	$11,853

A condensed statement of condition of the SBIC subsidiary, prepared on the value basis, follows. Amounts immaterial to the consolidated financial statements of the Company are not separately disclosed.

	1979	1978
	(In Thousands)	
ASSETS		
Cash and temporary cash investments	$ 6,642	$ 3,661
Intercompany receivables		254
Other current assets	757	1,136
Investments	11,263	10,740
Other noncurrent assets	352	402
	$19,014	$16,193
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current maturities of long-term debt	$ 762	$ 635
Accounts payable and accrued expenses	82	80
Intercompany payables	250	338
Long-term debt, noncurrent:		
Notes and mortgages	510	1,080
Subordinated debentures	7,697	3,889
Other noncurrent liabilities	1,650	1,710
Stockholder's equity	8,063	8,461
	$19,014	$16,193

Payment of dividends from the SBIC to the parent company is restricted to the amount of the SBIC's undistributed realized earnings as defined by the SBA which aggregated $158,000 at December 31, 1979.

Investments in and Advances to 50% and Less-Owned Companies:

At December 31, 1979, the Company owned 50% of the common stock of Morton Realty Associates, Inc. In February 1979, the Company sold all of its investment, which consisted of 35.9% of the common stock and notes receivable, in Inns of the Americas, Inc., for $2,220,000 in cash. The gain, net of related income taxes, was $1,023,000 ($.54 per share) and was recognized at the date of sale.

The Company's equity in income and (losses), which amounts were not material in any of the periods presented, has been included in other, net, in the statements of income.

IU INTERNATIONAL CORPORATION
(Balance Sheet)

	1979	1978
	(In Thousands)	
Long-term receivables and investments	$76,816	$58,575

(Notes to Financial Statements)

Note: Long-Term Receivables and Investments

The total carrying values of long-term receivables and investments at December 31, 1979 and 1978 are shown in the table below.

In thousands	1979	1978
Long-term receivables and restricted cash deposits	$33,936	$15,970
Land held for sale or development	8,463	11,162
Unconsolidated subsidiaries and affiliates	15,448	12,413
Cooperatives and joint ventures	17,047	16,839
Other investments	2,548	3,943
Provision for loss	(626)	(1,752)
	$76,816	$58,575

Long-term receivables include secured notes received on the sale of certain distribution subsidiaries.

U.S. TRUCK LINES, INC. OF DELAWARE
(Balance Sheet)

	1979	1978
Current assets:		
U.S. and state government securities	$13,321,357	$10,541,476

(Notes to Consolidated Financial Statements)

Investments

Short-term investments and certificates of deposit are carried at cost, which approximates market, plus accrued interest. Long-term investments are carried at cost, net of accumulated amortization of premiums and accretion of discounts, which approximates market.

LEASEWAY TRANSPORTATION CORP.
(Balance Sheet)

	1979	1978
Current Assets		
Investment in Securities--at cost (quoted market value $25,521,000 and $27,324,000)	$29,123,273	$29,183,133
Other Assets		
Investments in jointly-owned companies--at equity	$ 2,892,581	$ 2,293,303

(Notes to Financial Statements)

2. Investments

Cash and short-term investments include time deposits and certificates of deposit of $9,375,000 and $17,634,000 at December 31, 1979 and 1978, respectively. The remainder is invested principally in short-term money market instruments.

Investments in securities consist of sinking fund preferred stocks of listed companies, which are redeemable in the future by the issuer at aggregate amounts in excess of their cost. Realized gains and losses from the redemption and sale of securities in 1979 and 1978 were not significant.

Accounts receivable

Accounts receivable balances generally included customer and interline receivables. Table 9 indicates the captions used in this section of the balance sheet. Categories of amounts receivable frequently were shown on the balance sheet or in the notes to the financial statements.

TABLE 9. RECEIVABLES CAPTIONS

	No. of Surveyed Companies
Accounts receivable	19
Receivables	9
Accounts and notes receivable	5
Trade receivables or trade accounts receivable	7
Customer and interline accounts receivable	3

EXAMPLES Accounts receivable

BANNER INDUSTRIES, INC.
(Balance Sheet)

	1979	1978
Current Assets		
Receivables, less allowance for doubtful accounts of $759,000 in 1979 and $661,000 in 1978	$25,823,002	$21,188,761

PEPSICO, INC.
(Balance Sheet)

	1979	1978
Current Assets		
Notes and accounts receivable, less allowance: 1979-$24,034; 1978-$27,527	$557,157	$433,650

NEW PENN MOTOR EXPRESS, INC.
(Balance Sheet)

	1979	1978
Current Assets		
Accounts receivable		
Trade (less allowance for doubtful accounts $173,480 and $158,277)	$2,587,171	$2,264,435
Officers and employees	39,976	15,445

WILSON FREIGHT COMPANY
(Balance Sheet)

	1979	1978
Current Assets		
Customer and interline accounts receivable less allowances of: 1979-$697,737; 1978-$400,728	$12,656,769	$12,414,183
Receivable from Hill-Elliott, Inc.		785,406

Allowance for doubtful accounts

Table 10 indicates the various methods of presenting the allowance for doubtful accounts on the balance sheet. The majority of the surveyed companies disclosed both the existence of an allowance and the amount thereof.

TABLE 10. DISCLOSURE OF ALLOWANCE FOR DOUBTFUL ACCOUNTS

	No. of Surveyed Companies
Amount shown parenthetically in the receivable description	35
Allowance deducted from receivables on the balance sheet	1
Amount of allowance disclosed in a footnote	1
Amount of allowance not disclosed	6
	43

EXAMPLES Allowance for doubtful accounts

ALLIED VAN LINES, INC.
(Balance Sheet)

	1979	1978
Current Assets		
Accounts receivable:		
Agents--current settlements	$25,479,000	$21,938,000
Other	16,776,000	13,391,000
Less: Allowance for doubtful accounts	992,000	266,000

ROADWAY EXPRESS, INC.
(Balance Sheet)

	1979	1978
Current Assets		
Notes and accounts receivable--customers, interline carriers and miscellaneous (net of allowance for uncollectible accounts)	$64,782,962	$56,416,019

MIDWESTERN DISTRIBUTION, INC.
(Balance Sheet)

	1979	1978
Current Assets:		
Receivables, net	$14,714,278	$11,097,136

(Notes to Financial Statements)

Receivables

	December 31	
	1979	1978
Installment notes receivable, current	$ 5,594,733	$ 5,679,326
Accounts receivable, trade	4,606,739	2,917,994
Accounts receivable, independent contractors	4,116,290	2,477,900
Refundable income taxes	257,898	-
Accounts receivable, other	418,618	281,916
	14,994,278	11,357,136
Less allowance for doubtful accounts	280,000	260,000
	$14,714,278	$11,097,136

The unearned portion of the finance charges of $1,776,485 for 1979 and $3,103,620 for 1978 have been offset against current and long-term installment notes receivable for financial reporting purposes.

The installment notes receivable are collateralized by the equipment sold to the independent contractors.

THE BEKINS COMPANY
(Balance Sheet)

	1979	1978
	(In Thousands)	
Current assets		
Accounts receivable, less allowance (1979-$1,946; 1978-$1,783) for doubtful accounts	$50,211	$41,460

Inventories and operating supplies

Inventories for motor carriers consist primarily of fuel, repair parts, tires and miscellaneous supplies to be used in operations. A summary of the primary captions used is shown in Table 11. The caption inventories was the more frequently used term. However, of the 17 surveyed companies using the caption inventories, 9 had significant noncarrier operations.

The methods used in pricing inventories or operating supplies are summarized in Table 12.

When the basis of pricing inventories or operating supplies was mentioned, it was either disclosed in the balance sheet caption or in the notes to the financial statements.

TABLE 11. INVENTORY CAPTIONS

	No. of Surveyed Companies
Inventories	17
Repair parts and operating supplies	7
Materials and supplies	4
Operating supplies	6
Fuel, tires, parts & supplies	4

TABLE 12. METHODS USED TO PRICE INVENTORY

	No. of Surveyed Companies
Lower of cost or market	12
Cost	11
Lower of average cost or market	2
Lower of standard cost or market	1
Current invoice (replacement) cost	1
Average cost	1

EXAMPLES Disclosure of inventory valuation

OVERNITE TRANSPORTATION COMPANY
(Balance Sheet)

	1979	1978
Current Assets		
Inventories, at cost (first-in, first-out) not in excess of market	$3,406,000	$2,488,000

CHEMICAL LEAMAN CORPORATION
(Balance Sheet)

	1979	1978
Current assets		
Operating supplies	$2,921,000	$1,995,000

(Accounting Policies Footnote)

Operating Supplies

Operating supplies representing parts and supplies for revenue equipment are valued at the latest representative purchase price.

MAYFLOWER CORPORATION
(Balance Sheet)

	1979	1978
Current Assets		
Equipment and inventory held for resale, at cost	$627,880	$649,563

CONSOLIDATED FREIGHTWAYS, INC.
(Balance Sheet)

	1979	1978
	(In Thousands)	
Current Assets:		
Inventories, principally at LIFO cost		
Manufacturing materials and work in process	$ 91,085	$ 90,540
Finished goods	34,584	10,303
Operating supplies	19,770	9,833
	$145,439	$110,676

(Accounting Policies Footnote)

Inventories

Substantially all of the inventories of the manufacturing subsidiaries are valued on the last-in, first-out (LIFO) basis. Other inventories are stated at the lower of average cost or market. If the LIFO inventories had been priced at average cost at December 31, 1979, and 1978, the reported inventories would have been increased by $28,360,000 and $20,522,000, respectively.

BANNER INDUSTRIES, INC.
(Balance Sheet)

	1979	1978
Current Assets		
Inventories, at lower of cost (first-in, first-out) or market	$27,502,845	$21,983,859

Prepaid expenses and prepaid tires

Prepaid expenses included taxes, insurance, liscenses and tires in service. The captions used on the balance sheet are summarized in Table 13.

ICC accounting regulations prohibit motor carriers from capitalizing tires purchased on new units as a part of revenue equipment. However, carriers are permitted to either capitalize tires and amortize them over their estimated useful lives or to expense the entire cost of the tires at the time they are placed in service. Tires were classified on the balance sheet as shown in Table 14.

The basis for the dual method (expense vs. capitalization) permitted in accounting for tires can best be summarized by consideration of the actual average life of tires in service. Carriers with high utilization of equipment, combined with short to medium length hauls will often have an average tire life of less than twelve months and, accordingly, expense tires placed in service immediately. On the other hand, carriers with less than high equipment utilization, combined with extremely long hauls over interstate highways may have an average tire life in excess of twelve months and, therefore, capitalize and amortize tires placed in service over their average estimated useful life.

Also some carriers take a third approach, by capitalizing approximately 50% of the cost of tires in service on the basis that due to safety standards the average value of tires in service never deteriorates below this value.

See Section D "Other Developments and Trends" for additional information related to current developments affecting accounting for tires.

TABLE 13. PREPAID EXPENSE CAPTIONS

	No. of Surveyed Companies
Prepaid expenses	28
Prepaid expenses (including tires in service)	10
Inventories and prepaid expense	2
Prepaid expenses and other current assets	2

TABLE 14. PREPAID TIRE CLASSIFICATIONS

	No. of Surveyed Companies
Separate line item in prepaid expenses	12
Separate line item	4
Amount parenthetically disclosed in prepaid expenses	1
Included in prepaid expenses--amount not disclosed	3
Not shown	23*
	43

*Includes 1 report showing tires in the inventory section.

EXAMPLES Prepaid tires

TRANSCON LINES
(Balance Sheet)

	1979	1978
Current Assets		
Prepaid expenses:		
Tires--on equipment in use	$5,101,000	$4,491,000
Taxes, licenses, insurance, and other	3,839,000	2,320,000

WILSON FREIGHT COMPANY
(Balance Sheet)

	1979	1978
Current Assets		
Prepaid expenses and other current assets	$1,520,726	$1,778,812
Prepaid tires	3,080,161	2,998,482

TRI-STATE MOTOR TRANSIT CO.
(Balance Sheet)

	1979	1978
Current Assets		
Prepaid expenses		
Insurance, taxes, licenses and other	$ 140,010	$ 234,843
Tires and tubes in service	948,411	786,697

Various methods of amortization of purchased tires were noted. Disclosure of the amortization method used was usually made in the accounting policies footnote. The methods of amortization are summarized in Table 15.

TABLE 15. AMORTIZATION METHODS FOR TIRES

	No. of Surveyed Companies
Charged off when placed in service	2
Amortized over "the estimated useful life of the tires"	12
Tires recorded at 50-75% of original cost	2
Based on mileage	6
Based on age (three years from installation)	2
Not disclosed	19
	43

EXAMPLES Accounting for tires

REFRIGERATED TRANSPORT CO., INC.
(Accounting Policies Footnote)

Prepaid Tires

New tires are amortized over their estimated useful lives: one year for tractor tires and one and a half years to two years for trailer tires.

TRI-STATE MOTOR TRANSIT CO.
(Accounting Policies Footnote)

Tires and Tubes in Service

The cost of tires and tubes placed in service, inclusive of those purchased with new revenue equipment, is amortized on the straight-line method over their estimated useful life.

BRIGGS TRANSPORTATION CO.
(Accounting Policies Footnote)

Prepaid tires: Tires placed in service and recapping costs are recorded as prepaid expenses and charged to operations on a per-mile basis.

BRANCH INDUSTRIES, INC.
(Accounting Policies Footnote)

B. ICC Accounting Regulations

In reports to the ICC, tires and tubes are amortized over five months from the date of installation. In the accompanying financial statemens, the amount of tires on equipment at the end of each year has been estimated at 75% of cost. Capitalized tires, included in revenue equipment, amounted to $3,284,300 and $2,558,300 at December 31, 1979 and 1978, respectively. The effect upon consolidated net earnings as a result of this treatment has been to increase (decrease) net earnings by $243,000 and ($30,000) for 1979 and 1978, respectively.

Capital assets

Capital assets include land, buildings, all carrier operating property, furniture and fixtures, and other miscellaneous fixed assets. A breakdown of the components under these captions was disclosed on the balance sheet except in six instances where the detail was included in a footnote or in supplemental financial statement information.

The primary captions used in the presentation of capital assets are shown in Table 16.

TABLE 16. CAPITAL ASSETS CAPTIONS

	No. of Surveyed Companies
Property, plant, and equipment	14
Property and equipment	16
Carrier operating property	3
Operating property	5
Tangible property	1
Plant and equipment	1
Property	1
Property, structures and equipment	1
Revenue earning equipment	1
	43

EXAMPLES Capital asset presentation

COASTAL INDUSTRIES, INC.
(Balance Sheet)

	1979	1978
Carrier Operating Property		
Land and Improvements	$ 1,361,711	$ 1,322,479
Structures	4,371,225	4,367,335
Revenue equipment	39,176,103	37,400,172
Other equipment	2,594,283	2,352,573
Leasehold improvements	361,700	309,007
	47,865,022	45,751,566
Less allowances for depreciation	21,150,514	19,071,889
TOTAL CARRIER OPERATING PROPERTY	$26,714,508	$26,679,677

MCLEAN TRUCKING COMPANY
(Balance Sheet)

	1979	1978
Tangible Property		
Land	$ 15,549,805	$ 8,594,025
Buildings	73,503,624	62,059,163
Revenue equipment	142,410,249	120,310,387
Refinery plant and equipment	15,144,602	11,978,450
Other equipment	14,434,105	9,[illegible]16,126
	261,042,385	212,658,151
Less allowances for depreciation	90,849,378	77,304,137
	$170,193,007	$135,354,014

PENN YAN EXPRESS, INC.
(Balance Sheet)

	1979	1978
Property, plant and equipment		
Land	$ 880,698	$ 848,736
Terminals and offices	5,000,553	3,637,043
Revenue equipment	9,119,266	7,141,273
Other operating equipment	2,927,075	2,561,203
Construction in progress	-	672,682
	17,927,592	14,860,937
Less accumulated depreciation	5,773,903	4,821,189
Net property, plant and equipment	$12,153,689	$10,039,748

GATEWAY TRANSPORTATION CO., INC.
(Balance Sheet)

	1979	1978
PROPERTY AND EQUIPMENT, at cost		
Fleet equipment	$38,526,000	$39,515,000
Terminal facilities and improvements	22,612,000	22,576,000
Other operating equipment	5,193,000	5,231,000
Unimproved real estate	111,000	126,000
	$66,442,000	$67,448,000
Less--accumulated depreciation and amortization	33,630,000	30,268,000
Net property and equipment	$32,812,000	$37,180,000

EXAMPLES Accounting for capital assets

EAZOR EXPRESS, INC.
(Accounting Policies Footnote)

Operating Property--

The Company provides for depreciation on a straight-line basis for financial reporting purposes at rates which will allocate the cost of its assets over their estimated useful lives, generally 30 to 50 years for structures, 8 years for revenue equipment and 3 to 10 years for all other equipment. Leasehold improvements are amortized over the terms of the respective leases or the lives of the assets, whichever is shorter. Expenditures for normal maintenance and repairs are charged to income and renewals and betterments are capitalized. Upon sale or retirement of the property, the asset and related accumulated depreciation accounts are relieved of the amounts recorded therein for such items and any resulting gain or loss is reflected currently in income.

The cost of revenue equipment does not include the cost of tires, which is carried as a prepaid expense and amortized over the estimated tire lives.

DELTA CALIFORNIA INDUSTRIES
(Accounting Policies Footnote)

Property and equipment

Depreciation is computed principally by the straight-line method over the estimated useful lives of the assets, which are as follows:

Buildings and improvements	10 - 33 years
Revenue equipment	5 - 8 years
Other equipment	3 - 10 years

Maintenance and repairs are charged to income as incurred. Additions, replacements and improvements of property and equipment are capitalized. When property and equipment are sold or retired, the cost and accumulated depreciation are eliminated from the accounts and any gain or loss is included in the results of operations. Gains and losses from retirement of revenue and other equipment are treated as an element of operating income (as an adjustment of depreciation for the year). Gains on sales of other property, primarily real property, are classified as nonoperating income.

LIQUID TRANSPORTERS, INC.
(Accounting Policies Footnote)

Depreciation--Property, plant and equipment are carried at cost. The Company provides for depreciation by the straight-line method over the following estimated useful lives of the assets:

	Years
Building and improvements	10 to 25
Revenue equipment	5 to 10
Other equipment	3 to 10

Maintenance and repairs are charged to expense as incurred. Cost or renewals and betterments are capitalized by charges to the property accounts and depreciated at the applicable rates. The cost of assets retired or otherwise disposed of is removed from the asset accounts, the accumulated depreciation is removed from the related reserves and the net gain or oss is reflected in earnings.

Operating rights

This caption includes the excess of purchase price of acquired companies over net assets acquired and the cost incurred in obtaining operating rights or permits. See Sections C and D for current developments affecting operating rights.

The terminology used on the balance sheet is summarized in Table 17.

TABLE 17. OPERATING RIGHTS CAPTIONS

	No. of Surveyed Companies		No. of Surveyed Companies
Operating rights and other descriptions including operating rights	23	Franchises and other descriptions including franchises	1
Intangible assets, intangible property or intangibles	7	Operating authorities	6
		Other	3
		None disclosed	3
			43

EXAMPLES Intangible assets

RLC CORPORATION
(Balance Sheet)

	1979	1978
Operating Rights	$10,492,000	$10,174,000
Excess of Cost Over Net Assets of Business Acquired	5,089,000	5,092,000

RYDER SYSTEM, INC.
(Balance Sheet)

	1979	1978
	(Thousands of dollars)	
Intangible assets and deferred charges	$ 29,843	$ 27,257

ARKANSAS BEST CORPORATION
(Balance Sheet)

	1979	1978
Operating Rights, Franchises and Intangibles, less amortization (1979-$1,762,205; 1978-$1,360,768)	$20,372,116	$17,317,180

Amortization of operating rights

APB Opinion No. 17, "Intangible Assets," requires the amortization of all intangibles acquired after October 31, 1970 over a period not to exceed forty years. All surveyed companies amortize acquisitions made subsequent to October 1970 and do not amortize pre-November 1970 acquisitions.

The accounting policy relating to operating rights was generally disclosed in the accounting policies footnote.

EXAMPLES Operating rights

BRANCH INDUSTRIES, INC.
(Accounting Policies Footnote)

Operating rights

Operating rights include amounts paid in excess of underlying book values for companies acquired. Operating rights are represented by Certificates of Public Convenience and Necessity which are granted by the Interstate Commerce Commission. Rights amounting to $1,591,700 were acquired prior to October 31, 1970 and, in the opinion of management, there has been no diminution in value, and therefore such rights are not being amortized. The balance of operating rights is applicable to subsequent acquisitions and accordingly is being amortized over 40 years.

MID-AMERICAN LINES, INC.
(Accounting Policies Footnote)

CARRIER OPERATING AUTHORITY

Carrier operating authority represents intangible assets, the major portion of which is the cost of operating rights purchased and amounts paid for operating companies in excess of fair market value of net tangible assets acquired. At December 31, 1979, operating rights of $570,592 acquired after October 31, 1970, the date from which amortization is required, are being amortized over 40 years.

BUTLER INTERNATIONAL, INC.
(Accounting Policies Footnote)

Operating Motor Carrier Rights

Operating motor carrier rights are stated at cost and are represented by certificates of public convenience and necessity granted by the Interstate Commerce Commission and other regulatory agencies, as well as the allocation of the Company's purchase price of certain motor carrier operations. Management does not presently anticipate any diminution in the value of these assets.

Rights acquired prior to November 1, 1970 are not being amortized. Appproximately $2,146,000 of rights acquired after said date are being amortized over a 40-year period.

FLEXI-VAN CORPORATION
(Accounting Policies Footnote)

Cost in Excess of Net Assets of Acquired Companies

The cost in excess of net assets of acquired companies applicable to business purchased prior to November 1, 1970 ($5,073,000) is not being amortized since in the opinion of management, there is continuing value.

Current liabilities

Captions used to describe current liabilities generally fall within the following categories: accounts payable, accrued expenses, salaries and wages payable, taxes other than income taxes, claims payable, federal income taxes payable, and current portion of long-term debt. The number of captions used to describe current liabilities ranged from 3 to 11. The average number of line items included in current liabilities was 6.

Accounts payable and accrued expenses

Current liabilities for trade accounts payable, interline accounts payable, withholding taxes, salaries and wages, and taxes other than income taxes were classified under a variety of captions. Table 18 indicates a general caption heading with the number of reports in which it appeared.

TABLE 18. ACCOUNTS PAYABLE AND ACCRUED EXPENSES CAPTIONS

	No. of Surveyed Companies		No. of Surveyed Companies
Accounts payable, trade accounts payable or similar caption containing accounts payable	43	Salaries and wages, accrued wages or caption referring to wages	27
Accrued expenses, accrued liabilities, or other liabilities	34	Accrued taxes, taxes other than income taxes, or similar caption not including income taxes	19
		Drafts payable	2

EXAMPLES Accounts payable and accrued expenses

GATEWAY TRANSPORTATION CO., INC.
(Balance Sheet)

	1979	1978
CURRENT LIABILITIES		
Bank overdraft	$ 1,032,000	$ -
Current debt	14,360,000	7,273,000
Drafts outstanding	2,473,000	3,977,000
Accounts payable	7,498,000	6,807,000
Accrued liabilities	7,997,000	7,888,000
Federal and state income taxes	225,000	1,551,000
Total current liabilities	$33,585,000	$27,496,000

MURPHY MOTOR FREIGHT LINES, INC.
(Balance Sheet)

	1979	1978
Current liabilities:		
Current portion of long-term debt and debentures	$ 882,182	$ 803,074
Accounts payable	2,574,810	2,227,184
Accrued expenses	3,598,120	3,070,142
Estimated liability for claim--current	886,350	662,645
Federal and state income taxes	78,330	92,513
Deferred income taxes--current	-	375,505
Total current liabilities	$8,019,792	$7,231,063

PRESTON TRUCKING COMPANY, INC.
(Balance Sheet)

	1979	1978
Current liabilities:		
Long-term debt due in one year	$ 214,138	$ 168,433
Accounts payable	7,241,977	6,407,069
Dividends payable	533,848	475,079
Accrued expenses:		
Wages, salaries, and vacation pay	3,439,336	3,665,487
Retirement plan contribution and other incentives	2,194,892	2,278,766
Other	1,938,377	1,283,594
Cargo loss, damage, and other claims	1,600,447	1,408,336
Federal and state income taxes	1,694,883	3,210,346
Total current liabilities	$18,857,898	$18,897,110

TRI-STATE MOTOR TRANSIT CO.
(Balance Sheet)

	1979	1978
CURRENT LIABILITIES		
Accounts payable	$ 5,664,355	$ 4,633,040
Federal and state income taxes	920,541	1,104,594
Public liability, property damage and other claims	937,995	660,330
Dividends payable	282,361	190,763
Accrued expenses		
Payroll and amounts due lease operators	2,967,633	2,264,170
Taxes other than income	479,283	403,768
Interest	252,712	185,389
Note payable to bank		200,000
Current maturities of long-term debt	1,599,014	1,546,136
Total Current Liabilities	$13,103,894	$11,188,190

Claims payable

Many motor carriers are self-insured to a specific dollar limit for losses incurred as the result of cargo loss and damage, workers' compensation, and property damage and public liability (related to use of revenue equipment on highways). The general method or methods followed to accrue the aforementioned liabilities are:

Cargo Loss and Damage Claims Under Interstate Commerce Commission regulations, a shipper has up to nine months after shipment in which to file a claim of this type. Generally, a liability is accrued for claims received and not processed at the balance-sheet date. In addition, an amount is usually accrued for unknown claims not received at the balance-sheet date by either recording claims occurring prior to the balance-sheet date which are received during a four to six week period subsequent to the balance sheet date or providing a liability based on historical experience factors.

Workers' Compensation Claims This liability is generally accrued based on claims filed, with the liability for unsettled claims being estimated based on each individual situation.

Property Damage and Public Liability Claims Generally, the liability is based on the estimated settlement for each known accident.

Overcharged Claims This accrual is usually based upon a percentage of revenue, such percentage factor being determined based on historical experience.

Amounts accrued utilizing the above criteria are in compliance with FASB Statement No. 5, "Accounting for Contingencies." The two conditions which must be met in order to accrue an estimated loss from a contingency under Statement No. 5 are:

1. Information available prior to issuance of the financial statements indicates that it is probable that an asset had been impaired or a libility has been incurred at the balance-sheet date. It is implicit in this condition that it must be probable that one or more future events will occur confirming the fact of the loss.

2. The amount of loss can be reasonably estimated.

The terminology used to describe the aforementioned claims (self-insurance) could be misleading to those not familiar with the motor carrier industry. Generally, such amounts represent an accrual for an estimated or known liability for claims relating to losses that occurred prior to the balance-sheet date. Of the 26 companies that mentioned accruals for this type of loss, 81% used the term "claims" to describe the liability. The remaining 19% referred to the accruals with the term "self-insuance."

Most reports in the survey disclosed claims payable. This includes the various estimated labilities for cargo loss, public liability, property damage, personal injury loss, insurance adjustments and overcharge claims. The disclosure of claims payable is summarized in Table 19.

Of those reports disclosing the dollar amount in a separate category on the balance sheet, Table 20 indicates how the liability for such claims was classified.

TABLE 19. CLAIMS PAYABLE DISCLOSURE

	No. of Surveyed Companies
Dollar value shown as a separate category on the balance sheet	22
Described only in a footnote	4
Not present or not disclosed	17

TABLE 20. CLASSIFICATION OF LIABILITY FOR CLAIMS

	No. of Surveyed Companies
Entire amount as a current liability	16
Portion expected to be paid within one year as a current liability with balance shown as noncurrent	8
Entire amount as a noncurrent liability	2

EXAMPLES Claims payable

CONSOLIDATED FREIGHTWAYS, INC.
(Balance Sheet)

	1979	1978
	(In thousands)	
Current Liabilities		
Accrued claims cost	$31,180	$26,729
Noncurrent Liabilities		
Deferred Credit and Other Liabilities	$20,441	$14,342

(Accounting Policies Footnote)

Accrued Claims Cost

The company provides for the uninsured cost of property, casualty and liability claims. Such cost is charged to income each year based on historical claims experience and covers both filed unpaid claims and unfiled claims relating to operations conducted through December 31, 1979. The obligations for claims which are not expected to be paid within one year are classified under deferred credits and other liabilities in the accompanying consolidated balance sheets.

MCLEAN TRUCKING COMPANY

(Balance Sheet)

	1979	1978
Current Liabilities		
Current claims payable, estimated	$9,812,000	$6,643,000
Reserves		
For claims as self-insurer	$2,355,000	$1,962,000

(Accounting Policies Footnote)

Reserves for Claims as Self-Insurer:

The Company acts as self-insurer for (1) loss or damage to revenue equipment and (2) workmen's compensation in certain states. Under an agreement with its insurance underwriters, the Company has assumed liability in any single occurrence for bodily injury, property damage, cargo loss and workmen's compensation up to $500,000, with excess liability assumed by the underwriters up to $50,000,000. That portion of the reserve for claims estimated to be payable within one year is classified as a current liability.

ALLIED VAN LINES, INC.
(Balance Sheet)

	1979	1978
Current Liabilities		
Cargo claims	$10,107,000	$ 8,437,000
Bodily injury and property damage claims	1,925,000	1,910,000

(Accounting Policies Footnote)

Cargo Claims

The Company's liability for physicial loss or damage to shippers' property is limited by law unless a greater value is declared and the appropriate cargo protection charges are paid by shippers. Agents are charged for cargo claims up to a specified maximum amount per claim. Claims in excess of amounts chargeable to agents are included in expense currently. Liabilities are recorded to reflect estimated claims outstanding plus an estimate for claims incurred but not reported, based on past experience.

Bodily Injury and Property Damage Claims

The Company administers a program which provides, through charges to its agents, a reserve for bodily injury and property damage claims. The charges to each agent under this program are at rates established by the Company based upon historical loss experience and include claims costs, legal expenses, insurance premiums and administrative costs incurred to support the program.

Accrued maintenance

Some motor carriers accrue maintenance cost on major components of revenue equipment to provide a measure of impairment of an asset not accounted for under depreciation methods required by the regulatory agency. Such accruals are usually classified as other non-current liabilities on the balance sheet. A brief discussion of the methodology for this accounting treatment follows:

> Certain equipment manufacturers claim the economic life of a tractor, in terms of miles, is considerably in excess of 1,000,000 miles. However, to obtain this life, certain major components (engine, transmission and differential) will have to be rebuilt in order to function as long as the basic tractor. For example, an over-the-road tractor might require a major engine overhaul (out of frame rebuild) at approximately 300,000 miles. If the economic life of the tractor to a motor carrier is (stated in terms of miles rather than years) 600,000 miles it is obvious that one engine rebuild will be required. As the cost to rebuild an engine is determinable, it is relatively easy in this example to determine the additional cost per mile for this component (engine) to obtain a life of 600,000 miles (i.e., engine rebuild cost estimated at $3,000 divided by 600,000 miles equals $.005 per mile). The additional cost per mile is accrued based upon those miles incurred by unit, thereby matching costs with revenues earned in the same period as each is generated. When the engine is rebuilt, the cost is charged against the accrued maintenance for that vehicle.
>
> Accordingly, motor carriers which normally expect to utilize tractors in excess of a 300,000 mile life must account for the additional costs necessary to maintain major components over the expected life of the tractor. The method described above (on a period cost per mile basis) related to accrued maintenance expense, provides for major component maintenance costs to remain constant throughout the tractor life. Some carriers recognize the cost of rebulding a major component at the time of repair, which may fail to allocate appropriate costs to the preceding period, permitting fluctuations in repair expenses and may result in lack of comparability in financial reporting. Other carriers may elect to amortize expense of major components replacement over the remaining life with no allocation to the preceding period.

EXAMPLES Accrued maintenance

ROADWAY EXPRESS, INC.
(Balance Sheet)

OTHER LIABILITIES	1979	1978
Future equipment repairs	$11,662,000	$11,841,000

(Accounting Policies Footnote)

Other Liabilities

Future equipment repairs is an accrual for estimated costs of anticipated major repairs on intercity tractors.

COASTAL INDUSTRIES, INC.
(Accounting Policies Footnote)

Equipment Repairs: The Corporation provides for the costs of certain anticipated recurring major repairs on tractors based on the estimated useful life of specific components in order to more properly match revenue and expense. See Note D.

(Notes to Consolidated Financial Statements)

Note D--Other Liabilities

	1979	1978
Equipment repairs	$596,790	$575,341

TRANSCON LINES
(Accounting Policies Footnote)

Property and Depreciation: Property is depreciated on a straight-line basis over the estimated useful lives of the assets. Operating equipment excludes the cost of tires, which is carried as a prepaid expense and amortized on a mileage basis.

Upon the sale or retirement of property, any profit or loss is reflected in other income.

The future cost of major equipment repairs on line-haul tractors is estimated and charged to expense on a mileage basis. All other maintenance and repairs are charged to expense as incurred.

Current portion of long-term debt

Included in this caption was all debt that was required to be paid within the next fiscal year. It included, for example, current portion of notes payable, equipment obligations, real estate mortgages and capitalized leases. The most common method of disclosure was a separate category or separate line item under current liabilities.

EXAMPLES One line disclosure in current liabilities

CAROLINA FREIGHT CARRIERS CORPORATION
(Balance Sheet)

CURRENT LIABILITIES	1979	1978
Current maturities of long-term debt	$1,301,752	$1,332,470

RETAIL MERCHANTS INDUTRIES, INC.
(Balance Sheet)

CURRENT LIABILITIES	1979	1978
Current maturities of term debt	$1,422,209	$1,223,048

Long-term debt

Many forms of long-term debt were included in this caption. Some of these represented equipment obligations, real estate mortgages, bank notes, revolving credit agreements and capitalized leases. The primary caption used on the balance sheet was one line "long-term debt." Most of these items included a reference to a footnote. The details of the long-term debt were then explained in the footnotes to the financial statements.

EXAMPLES Details of long-term debt disclosed in footnote

T.I.M.E.-DC, INC.
(Balance Sheet)

	1979	1978
CURRENT LIABILITIES:		
Long-term debt due within one year	$ 1,459,000	$ 1,265,000
Noncurrent Liabilities		
LONG-TERM DEBT (Note B)	$33,739,000	$26,478,000

(Notes to Financial Statements)

B. Long-Term Debt:

	December 31,	
	1979	1978
Revolving credit agreement, 13.75% and 10%	$28,000,000	$20,640,000
Capitalized lease obligations, 4% to 10.3%	4,012,000	4,650,000
Industrial development bond, 10.3% due in quarterly installments through July, 1988	1,559,000	-
Unsecured promissory notes, 5 1/2% to 6 1/4% due in semi-annual installments through November, 1982	1,000,000	1,500,000
Subordinated convertible debentures, 13.75% and 10% due October, 1981	500,000	500,000
Other	127,000	453,000
	35,198,000	27,743,000
Less amounts due within one year	1,459,000	1,265,000
	$33,739,000	$26,478,000

The Company has a revolving credit agreement with a group of commercial banks which allows for maximum borrowings up to $32,000,000. The agreement provides for interest on borrowings at 1/4% over the agent bank's prime rate adjusted quarterly and a fee of 1/2% on the unused portion of the maximum commitment. The agreement may be terminated as of June 30 of any year; if terminated, repayment is required in 23 equal quarterly installments commencing January 31 in the year following termination. At December 31, 1979, the Company has no written compensating balance arrangements; however, the Company has agreed informally to maintain compensating balances of up to 20% of its average revolving credit agreement debt outstanding, as determined from the bank's ledger records adjusted for estimated average uncollected fund.

The revolving credit agreement and unsecured promissory notes place certain restrictions on the Company, including required maintenance of working capital of $4,500,000 and shareholders' equity of $25,000,000. Under the most restrictive covenant, dividends may not be paid on any class of stock in excess of 50% of consolidated net earnings, as defined, since December 31, 1976, plus $2,300,000. At December 31, 1979, retained earnings available for future dividends approximate $463,000. The revolving credit agreement also permits the commercial banks to obtain a secured interest in certain property and equipment owned by the Company.

The Industrial Development Bond was issued by Franklin County Industrial Development Authority and is payable to a commercial bank. The Bonds are collateralized by land and buildings with a net carrying value of $2,736,000 and provide for interest at 75% of the bank's prime rate.

The subordinated convertible debentures were issued by a subsidiary to National City Lines, Inc. (see note F) and are convertible into a maximum of 40% of the outstanding shares of the subsidiary.

Maturities of long-term debt, including amounts due under the revolving credit agreement, if not renewed, are 1980-$1,459,000; 1981-$6,482,000; 1982-$6,014,000; 1983-$5,797,000; 1984-$5,406,000.

SPECTOR INDUSTRIES, INC.
(Balance Sheet)

	1979	1978
Long-term debt, excluding current maturities (note 4)	$69,161,074	$58,629,259

(Notes to Financial Statements)

(4) Long-Term Debt and Capital Lease Obligations

Long-term debt and capital lease obligations at December 31 are summarized below (000 Omitted):

	1979	1978
Revolving credit loan, interest 1/2% over prime (15-1/2% and 12-1/4% at December 31, 1979 and 1978 respectively)	$21,000	$20,000
6-3/8% convertible subordinated debentures due May 1, 1988	3,737	4,041
Real estate leases, payable to 1998, interest at 6% to 10-1/3%	4,662	5,173
Revenue equipment leases, payable to 1989, interest at 3/10 of 1% to 10%	44,244	29,501
Equipment obligations, payable to 1986, interest at fixed rates of 8% and variable rates of 2-1/4% over prime (maximum of 13%)	7,083	10,895
Other	1,152	1,401
	81,878	71,011
Less current maturities of long-term debt (including $6,883 for 1979 and $4,850 for 1978 applicable to capital leases)	12,717	12,382
Total	$69,161	$58,629

The revolving credit loan is evidenced by a promissory note and is secured by accounts receivable, revenue equipment and real estate with a balance sheet value of approximately $47,100,000 at December 31, 1979. Maximum borrowings are provided up to $32,000,000 under current commitments, and are based on a percentage of the net book value of the specified assets. At December 31, 1979, the unused commitment was $11,000,000 supported by borrowing bases of $11,700,000. The lenders may terminate the loan with thirty days notice and require repayment in sixty equal monthly installments thereafter. For balance sheet classification purposes, it has been assumed that the revolving loan will be repaid over a 60 month period requiring principal payments in 1980 aggregating approximately $3,850,000 which amount is included in current maturities. Actual required repayments will be limited to the amount, if any, by which borrowings exceed the borrowing bases at the end of any month.

The 6-3/8% Convertible Subordinated Debentures Indenture provides for ten annual retirements at par of $400,000 through sinking fund payments beginning May 1, 1978; the annual retirement will be reduced by the principal amount of debentures acquired by the Company or converted. The debentures are redeemable at the Company's option at a price (currently 102.525% of the principal amount) which declines annually until it reaches par in 1987. They are convertible into common stock at any time prior to maturity at a price of $21.50 per share.

The Revolving Credit Loan Agreement and the 6-3/8% Convertible Subordinated Debentures Indenture contain provisions which, among other things, restrict the payment of dividends, retirement of stock, and the amount of annual rental on leased property, and require maintenance of a minimum amount of working capital. At December 31, 1979, approximately $2,480,000 of retained earnings were available for dividends.

Real estate mortgage notes are secured by real property which have a net book value of approximately $2,650,000 at December 31, 1979. Revenue equipment and properties applicable to capital leases have a net book value of approximately $49,587,000 at year end.

Payments of principal amounts including capital leases and sinking fund deposits required in future years are as follows (000 omitted):

1980		$12,717
1981		13,755
1982		13,000
1983		12,573
1984		11,601
After		18,232
	Total	$81,878

Shareholders' equity

Three of the fourty-three surveyed companies had more than one class of common stock outstanding. Twelve of the balance sheets indicated that preferred shares were also outstanding. Most shareholders' equity sections included a brief description of the types of stock, such as par or stated value per share and the number of shares authorized and outstanding. Separate line items were on all balance sheets for the components of shareholders' equity except for one report that disclosed shareholders' equity as a one line item on the balance sheet and detailed the components in a footnote.

EXAMPLES Details of shareholders' equity

RLC CORPORATION
(Balance Sheet)

	1979	1978
Shareholders' Equity	$96,009,000	$75,175,000

(Notes to Financial Statements)

Shareholders' Equity

Changes in the components of shareholder's equity are summarized as follows:

	Stated Value of Preferred Stock	$1 Par Common Stock	Capital In Excess of Par or Stated Values	Retained Earnings
Balance at September 30, 1977	$293,000	$ 4,126,000	$29,448,000	$29,421,000
Net earnings				22,198,000
Dividends on preferred stock				(437,000)
Dividends on common stock				(2,780,000)
Conversion of preferred stock	(95,000)	693,000	(598,000)	
Redemption of preferred stock	(1,000)		(68,000)	
Conversion of indebtedness		717,000	6,245,000	
Issuance of comon stock under stock option plans		153,000	1,034,000	
Exercise of warrant		15,000	58,000	
3 for 2 common stock split		2,135,000	(2,142,000)	
Spin-off of Brandywind Sports, Inc.				(15,240,000)
Balance at September 30, 1978	$197,000	$ 7,839,000	$33,977,000	$33,162,000
Net earnings				27,541,000
Dividends on preferred stock				(132,000)
Dividends on common stock				(4,562,000)
Conversion of preferred stock	(25,000)	154,000	(129,000)	
Issuance of common stock under stock option plans		44,000	82,000	
3 for 2 common stock split		3,918,000	(3,928,000)	
Repurchase of common stock		(229,000)	(1,900,000)	
Balance at September 30, 1979	$172,000	$11,726,000	$28,102,000	$56,009,000

All share amounts and prices have been restated for the 3 for 2 common stock splits distributed on June 1, 1979 and December 16, 1977.

All shares of common stock repurchased during the year were subsequently cancelled except for those shares reissued upon exercise of stock options.

The Company is authorized to issue 20,000,000 shares of its $1 Par Value Common Stock and 1,000,000 shares of Preferred Stock. The preferred shares are without par value, with terms and conditions of each issue as determined by the Board of Directors. At September 30, 1979, outstanding preferred shares consisted only of 85,746 shares of the originally issued 101,377 shares of the Series C $1 Dividend Cumulative Convertible Preferred Stock, each share of which has a stated value of $2; has a redemption (at the option of the Company only) and a liquidating value of $30; has a voting right of .7 of a share of common stock; and is convertible into 1.575 shares of common stock.

The excess of liquidation value over stated value of the preferred shares ($2,401,000) places no restrictions on the Retained Earnings or Capital in Excess of Par or Stated Values of the Company.

Under the Company's current stock option plan, options to purchase common stock of the Company may be granted to officers and key employees at not less than 100% of the fair market value at the date of grant.

Changes in outstanding stock options are summarized as follows:

	Granted and Outstanding	
	Shares	Prices
Balance at September 30, 1977	413,527	$ 1.33-$ 5.56
Granted	107,250	7.11- 12.25
Exercised	(296,583)	1.33- 5.33
Cancelled and Expired	(52,800)	4.78- 5.33
Balance at September 30, 1978	171,394	1.33- 12.25
Granted	20,000	10.00
Exercised	(43,916)	1.33- 7.11
Cancelled and Expired	(5,625)	7.11
Balance at September 30, 1979	$141,853	$ 1.39-$12.25

At September 30, 1979, options for 16,000 shares are exercisable at per share prices ranging from $1.39 to $12.25, and 49,925 shares are available for grant under the Company's stock option plan.

COASTAL INDUSTRIES, INC.
(Balance Sheet)

	1979	1978
Shareholders' Equity--Notes E and F		
6% Cumulative Preferred Stock, $1,000 par value: Authorized, issued and outstanding--800 shares	$ 800,000	$ 800,000
Common Stock, $.25 par value: Authorized 3,000,000 shares in 1979 and 1,329,100 shares in 1978, issued and outstanding 1,137,748 shares in 1979 and 1,126,748 shares in 1978	284,437	281,687
Additional paid-in capital	4,681,869	4,632,494
Retained earnings	7,852,030	5,902,337
TOTAL SHAREHOLDERS' EQUITY	$13,618,336	$11,616,518

(Notes to Financial Statements)

Note E--Shareholders' Equity

The 6% Cumulative Preferred Stock is redeemable at the option of the corporation at $1,000 a share plus any unpaid cumulative dividends from date of issue but only to the extent of net income of the Corporation.

COASTAL INDUSTRIES, INC.
(Statement of Shareholders' Equity)

	6% Cumulative Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Total Shareholders' Equity
Balances at October 1, 1977	$800,000	$281,687	$4,632,494	$4,739,113	$10,453,294
Net income for the year ended September 30, 1978	-0-	-0-	-0-	1,555,820	1,555,820
Cash dividends:					
6% Cumulative Senior Preferred Stock--$18.78 a share	-0-	-0-	-0-	(6,573)	(6,573)
6% Cumulative Preferred Stock--$60.00 a share	-0-	-0-	-0-	(48,000)	(48,000)
Common Stock--$.30 a share	-0-	-0-	-0-	(338,023)	(338,023)
	-0-	-0-	-0-	(392,596)	(392,596)
Balances at September 30, 1978	800,000	281,687	4,632,494	5,902,337	11,616,518

	6% Cumulative Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Total Share-holders' Equity
Balances at September 30, 1978 Carried Forward	800,000	281,687	4,632,494	5,902,337	11,616,518
Issuance of 11,000 shares of Common Stock under stock option plan	-0-	2,750	37,375	-0-	40,125
Tax benefit related to exercise of non-qualified stock options	-0-	-0-	12,000	-0-	12,000
Net income for the year ended September 30, 1979	-0-	-0-	-0-	2,337,672	2,337,672
Cash dividends:					
6% Cumulative Preferred Stock--$60.00 a share	-0-	-0-	-0-	(48,000)	(48,000)
Common Stock-$.30 a share	-0-	-0-	-0-	(339,979)	(339,979)
	-0-	-0-	-0-	(387,979)	(387,979)
Balances at September 30, 1979	$800,000	$284,437	$4,681,869	$7,852,030	$13,618,336

() Indicates deductions

SECTION F

Income Statement

Income statement title

A summary of titles used to describe the income statement is shown in Table 21. Of the companies surveyed, thirty-four presented separate statements of income and retained earnings. Nine of the reports combined the income statement with the retained earnings statement.

Operating revenue

Operating revenue includes freight revenue, leasing revenue, revenues from consolidated operations unrelated to motor carrier services and other forms of revenue not specifically disclosed. Descriptions of operating revenue used by the companies included in the survey are summarized in Table 22.

The majority of the surveyed companies disclosing the components of operating revenues had substantial non-motor carrier operations. This disclosure was most often set forth in a separate business segment information note to the financial statements.

TABLE 21. TITLES USED TO DESCRIBE THE INCOME STATEMENT

	No. of Surveyed Companies
Statement of income	23
Statement of earnings	13
Statement of operations	5
Statement of net earnings	2
	43

TABLE 22. DISCLOSURE OF OPERATING REVENUE

	No. of Surveyed Companies
Operating revenue listed as one number on the income statement	29
Component parts of the operating revenue listed on the income statement	14
	43

EXAMPLE Detail of operating revenue

CAROLINA FREIGHT CARRIERS CORPORATION
(Statement of Earnings)

	1979	1978
Operating Revenue		
General Commodities	$193,259,450	$176,341,281
Special Commodities	22,483,476	14,225,123
	215,742,926	190,566,404

Revenue recognition

Twenty-four of the companies included in the survey disclosed their accounting policies regarding the method of recognizing carrier revenue. Table 23 summarizes these methods. See Section D for current developments related to methods of accounting for revenue.

TABLE 23. METHODS USED TO RECOGNIZE CARRIER REVENUE

	No. of Surveyed Companies		No. of Surveyed Companies
Recognized on date freight is picked up, treatment of costs not disclosed	9	Recognized on percentage of completion	4
Recognized on date of delivery	5	Recognized on date freight is picked up with costs charged to period incurred	4
Recognized on date freight is picked up with anticipated costs accrued	1	Recognized when freight leaves origin terminal	1

EXAMPLES Revenue recognition

YELLOW FREIGHT SYSTEM, INC.
(Accounting Policies Footnote)

Operating revenues are recognized at the time the shipment is received from the customer. Expenses associated with the operating revenues are recognized when incurred.

TRANSCON LINES
(Accounting Policies Footnote)

Revenue Recognition: Operating revenues for freight in transit are recognized generally on a pro rata basis with the incurrence of the related transportation and delivery costs.

REFRIGERATED TRANSPORT CO., INC.
(Accounting Policies Footnote)

Revenues Recognition

Operating revenues and related costs are recognized as of the date the freight is received for shipment.

BURNHAM ENTERPRISES, INC.
(Accounting Policies Footnote)

Carrier Revenues: The Company recognizes revenues from interstate and local hauls on delivery dates. Revenues from overseas shipments and the related expenses are deferred until all significant expenses have been accumulated.

CONSOLIDATED FREIGHTWAYS, INC.
(Accounting Policies Footnote)

Recognition of Revenues. The motor carrier and air freight forwarding subsidiaries of the Company recognize freight charges as revenue when freight is received for shipment. Estimated costs of performing the total transportation services are then accrued.

Operating expense format

A frequently used classification was the summation of all operating expenses and presentation of only a total. This type of disclosure was frequently used by those companies with significant noncarrier operations. Table 24 summarizes the various reporting formats of the surveyed companies.

TABLE 24. OPERATING EXPENSE FORMAT

	No. of Surveyed Companies
Natural classification	34
Activity classification	2
Other, primarily shows total operating expenses only	7
	43

EXAMPLE Operating expense format--natural classification

ROADWAY EXPRESS, INC.
(Statement of Consolidated Income)

	1979	1978
OPERATING EXPENSES		
Salaries, wages and benefits	$ 695,429,135	$628,218,341
Operating supplies and expenses	204,424,714	164,705,787
Operating taxes and licenses	33,770,815	33,976,133
Insurance and claims	32,729,699	28,868,906
Provision for depreciation	46,709,858	38,043,802
Net gain on disposal of carrier operating property (credit)	(2,529,826)	(3,249,055)
Total operating expenses	$1,010,534,395	$890,563,914

EXAMPLE Operating expense format--activity classification

PRESTON TRUCKING COMPANY, INC.
(Consolidated Statements of Earnings and Retained Earnings)

	1979	1978
Operating revenues	$160,361,376	$145,269,839
Operating expenses:		
Line-haul	45,369,589	37,527,317
Pickup and delivery	44,829,474	42,176,757
Billing and collecting	3,174,536	3,113,782
Platform	27,148,384	25,025,484
Terminal	8,882,499	7,598,990
Maintenance	3,395,002	2,862,791
Traffic and sales	4,275,890	3,539,389
Insurance and safety	2,606,438	2,185,649
Depreciation	6,286,498	5,636,680
General and adminstrative	4,588,927	3,841,289
Total operating expenses	$150,557,237	$133,508,128

EXAMPLE Operating expense format--other

MIDWESTERN DISTRIBUTION, INC.
(Consolidated Statements of Earnings)

	1979	1978
COSTS AND EXPENSES:		
Operating expenses	$62,714,733	$52,263,282
Costs of equipment sales and service	3,980,010	11,742,489
Deferred gain on tractor sales, net	(348,014)	110,496
General and administrative expenses	3,064,974	2,524,709
Interest	1,728,101	1,685,439
	$71,139,804	$68,326,415

Sale of depreciable assets

A summary of the methods of disclosure made on a gain or loss on sale of depreciable assets is shown in Table 25.

TABLE 25. SUMMARY OF DISCLOSURE FOR SALE OF DEPRECIABLE ASSETS

	No. of Surveyed Companies
Included in operating income or expenses	15
Included in other income or expenses	15

Of the fifteen surveyed companies that included gains or losses on sale of depreciable assets in operating income or expenses, eight showed the net gain or loss as a separate line item while six others adjusted depreciation expense. One of the companies indicated in the accounting policies footnote that gains and losses were included in operating income or expenses, however, no separate line item or other indication of depreciation adjustment was made.

EXAMPLES Sale of depreciable assets

ARKANSAS BEST CORPORATION
(Consolidated Statements of Operations)

	1979	1978
Other Income		
Gain on disposals of assets	$2,107,581	$1,847,922
Other	823,790	391,499
	$2,931,371	$2,239,421

MURPHY MOTOR FREIGHT LINES, INC.
(Consolidated Statements of Earnings)

	1979	1978
Operating expenses:		
Salaries, wages and employee benefits	47,784,663	44,664,958
Operating supplies and expenses	16,970,036	15,243,275
Operating taxes and licenses	1,821,167	1,898,041
Insurance and safety	1,723,749	1,551,432
Communication and utilities	1,172,277	1,072,298
Depreciation	3,389,992	2,990,772
Rent and purchased transportation	3,093,291	2,640,355
Miscellaneous expenses	558,442	498,021
Gain on disposition of revenue equipment, net	(369,203)	(581,355)
Total operating expenses	76,144,414	69,977,797

EAZOR EXPRESS, INC.
(Statement of Income (Loss))

	1979	1978
Operating Expenses--		
Salaries, wages and fringe benefits	35,122,322	34,044,919
Supplies and expenses	9,431,867	8,815,380
Operating taxes and licenses	1,885,296	1,915,199
Claims and insurance	1,632,330	1,437,389
Communications and utilities	1,018,374	949,354
Depreciation and amortization, including loss on disposition of operating assets of $59,890 and $90,964, respectively	2,190,675	1,911,732
Purchased transportation	9,582,809	8,802,058
Rental of terminals and miscellaneous equipment	554,194	531,848
Total operating expenses	$61,417,867	$58,407,879

Depreciable asset trade-ins

A majority of the surveyed companies included gains and losses from trade-ins of revenue equipment in the statement of income. Table 26 summarizes the treatment of gains and losses on trade-ins of revenue equipment.

TABLE 26. TREATMENT OF GAINS AND LOSSES ON DEPRECIABLE ASSET TRADE-INS

	No. of Surveyed Companies
Included in statement of income	36*
Used as an adjustment of the basis of the replacement asset	4

*Thirty of the thirty-six reports did not specifically mention trade-ins but included a general comment that gains and losses are recognized upon the sale, retirement on other disposition of depreciable assets.

EXAMPLES Depreciable asset trade-ins

GATEWAY TRANSPORTATION CO., INC.
(Accounting Policies Footnote)

Property and Equipment

The cost of property and equipment, excluding the cost of tires and net of estimated salvage, is depreciated on a straight-line basis over the following estimated useful lives:

Fleet equipment	6 - 8 years
Terminal facilities and improvements	10 -30 years
Other equipment	4 - 8 years

Repairs and maintenance are charged to operations as incurred. The cost of tires, including those purchased with new equipment, is amortized over the estimated useful lives of 24 to 36 months. The unamortized balance is included in prepaid expenses.

When properties are disposed of, the related costs and accumulated depreciation are removed from the accounts. The gain or loss on trade-ins of fleet equipment is used to adjust the cost of the acquired assets. Gains or losses on sales of fleet equipment and other properties are reflected in the statement of operations.

MAYFLOWER CORPORATION
(Accounting Policies Footnote)

C. Depreciation and Maintenance

Depreciation of property and equipment is provided primarily by the straight-line method at annual rates considered adequate to amortize the costs over the estimated useful lives of the assets. The lives used in computing depreciation during the periods were:

Buildings and improvements	20 to 40 years
Revenue equipment--tractors and trailers	5 to 8 years
Other operating equipment and improvements	4 to 10 years

Expenditures for maintenance and repairs are charged to income when incurred. Expenditures for betterments and major renewals are capitalized. The carrying amounts of major assets sold, retired, or otherwise disposed of and the related accumulated provisions for depreciation are eliminated from the accounts. Any resulting gain or loss, including that on equipment traded, is included in income.

SPECTOR INDUSTRIES, INC.
(Accounting Policies Footnote)

Changes in Accounting Policies

Effective January 1, 1978 the Company changed its method of accounting for revenue equipment trade-ins to a method whereby gains and losses on trade-ins are credited or charged to operations. The cumulative effect of the change on retained earnings at January 1, 1978 was not material. The net effect of this change in accounting was to increase earnings by $1,106,000 (60 cents per share) in 1978. Gain on revenue equipment trade-ins amounted to approximately $1,537,000 for 1979 and $1,580,000 for 1978.

Interest expense

Interest expense was included as a non-operating expense in all surveyed reports that distinguished between operating and non-operating expenses.

EXAMPLES Interest expense

CHEMICAL LEAMAN CORPORATION
(Consolidated Statement of Earnings and Retained Earnings)

	1979	1978
Other deductions (additions), net		
Interest	6,752,000	4,112,000
Miscellaneous	(319,000)	(90,000)
	6,433,000	4,022,000

LYNDEN TRANSPORT, INC.
(Consolidated Statements of Net Earnings)

	1979	1978
NONOPERATING INCOME (EXPENSE):		
Interest expense	(317,149)	(372,709)
Other income (expense)	443,894	(52,119)
	126,745	(424,828)

T.I.M.E.--DC, INC.
(Consolidated Statements of Earnings)

	1979	1978
Other expenses (income):		
Interest expense	3,287,000	2,390,000
Interest income	(251,000)	(372,000)
Gains on disposition of property and equipment	(454,000)	(1,724,000)
Other, net	(224,000)	143,000
	2,358,000	437,000

Income taxes

All reports surveyed disclosed federal income taxes on the income statement. Disclosure of federal income taxes included the current and deferred portions in all but one report. This disclosure also included state income taxes in a number of reports. The methods of disclosure are shown in Table 27. ASR No. 149 requires certain additional disclosures relating to federal income tax expense for all financial statements filed with the SEC. Examples of such disclosures are included below.

TABLE 27. METHOD OF INCOME TAX DISCLOSURE

	No. of Surveyed Companies
Current and deferred shown on the income statement	16
Income taxes shown as one number on the income statement with footnote disclosure of components	26
Income taxes shown as one number on the income statement with no disclosure of components	1
	43

EXAMPLES Income tax disclosure

RYDER SYSTEM, INC.
(Consolidated Statements of Earnings)

	1979	1978
	(thousands of dollars)	
Earnings before provision for income taxes	$106,705	$99,792
Provision for income taxes (note 6)	43,750	44,450
Net earnings	$ 62,955	$55,342

(Notes to Financial Statements)

(6) Income Taxes

(a) On its 1978 federal income tax return filed in September 1979, the company elected shorter permissible tax lives for certain revenue earning equipment. This election, which was not reflected in the 1978 provision for income taxes, together with a similar election planned for 1979, caused a substantial reduction in the company's current tax liability, resulting in income tax refunds which are included in receivables. In addition, these elections caused an increase in deferred income taxes and a decrease in deferred investment tax credits. The effect of these elections has been reflected in the 1979 provision for income taxes.

(b) The provision for income taxes consists of (in thousands):

Current tax expense (benefit):	1979	1978
Federal	$(11,454)	$10,608
State	(421)	2,739
Foreign	(158)	(1,665)
	(12,033)	11,682
Deferred tax expense (benefit):		
Federal	68,543	26,096
Investment tax credits in excess of the amount estimated to reduce current tax liability	(12,217)	(12,591)
State	8,593	5,179
Foreign	1,395	3,103
Deferred investment tax credit, excluding the additional investment tax credit relating to TRASOP:		
Earned during year	66,314	21,787
Reduction of 1978 investment tax credit on certain revenue earning equipment	9,649	19,289
Amortized during year	(10,511)	-
	(9,669)	(8,308)
	(10,531)	10,981
	$ 43,750	$44,450

The 1979 current federal tax benefit includes $11.7 million resulting from an election on the 1978 tax return to use shorter permissible tax lives for certain revenue earning equipment.

(c) Deferred tax expense, resulting from timing differences in the recognition of revenue and expense for tax and financial reporting purposes, consists of (in thousands):

	1979	1978
Tax depreciation over book depreciation	$43,312	$23,029
Tax over book depreciation resulting from election on 1978 tax return to use shorter permissible tax lives for certain revenue earning equipment	23,321	-
Excess of book gains over tax gains recognized on disposition of assets, principally vehicles	10,992	8,218
Insurance and other costs expensed on books but not currently deductible	(5,238)	(4,452)
Deferred state and foreign income taxes, net of federal income tax benefit	6,035	5,794
Other items, net	109	1,789
	78,531	34,378
Investment tax credits in excess of the amount estimated to reduce current tax liability	(12,217)	(12,591)
	$66,314	$21,787

It is not expected that the cash outlay for income taxes will substantially exceed the amount of income tax expense for any of the next succeeding three years.

(d) The activity in the balance sheet deferred income tax accounts was as follows (in thousands):

	1979	1978
Balance at beginning of year	$ 78,454	$57,673
Current year expense, including $23,321, in 1979, resulting from election on 1978 tax return to use shorter permissible tax lives for certain revenue earning equipment	66,314	21,787
Other changes	(727)	(1,006)
Balance at end of year	$144,041	$78,454

(e) Deferred investment tax credits, excluding the additional investment tax credit relating to TRASOP, are reconciled as follows (in thousands):

	1979	1978
Balance at beginning of year	$ 32,325	$21,344
Earned during year	9,649	19,289
Reduction of 1978 investment tax credit on certain revenue earning equipment	(10,511)	-
Amortized during year	(9,669)	(8,308)
Balance at end of year	$ 21,794	$32,325

(f) A reconciliation of the total tax expense with an amount calculated by applying the U.S. federal income tax rate to earnings before taxes follows (dollars in thousands):

	1979		1978	
	Amount	% of pretax income	Amount	% of pretax income
Computed "expected" tax expense	$49,084	46.0	$47,900	48.0
Increase (decrease) resulting from:				
Amortization of investment tax credits TRASOP (note 8):	(9,669)	(9.1)	(8,308)	(8.3)
Additional investment tax credit	(2,000)	(1.8)	(3,862)	(3.9)
Related compensation expense	920	.9	1,854	1.9
State income taxes, net of federal income tax benefit	4,413	4.1	4,117	4.1
Miscellaneous items, net	1,002	.9	2,749	2.7
	$43,750	41.0	$44,450	44.5

(g) For federal income tax return purposes, the company has unused investment tax credits of $59.1 million available to reduce future federal income tax payments. The unused investment tax credits are expected to be utilized before their expiration. For financial reporting purposes all investment tax credits have been utilized to reduce current and deferred taxes.

DELTA CALIFORNIA INDUSTRIES
(Consolidated Statement of Income)

	1979	1978
	(In thousands)	
Income before taxes on income	4,585	4,296
Taxes on income (Note D)	1,220	1,740
Net income	$3,365	$2,556

(Notes to Consolidated Financial Statements)

D. Taxes on income

The components of the provision for taxes on income are as follows:

	1979	1978
Federal, before investment and other tax credits	$1,813	$1,816
Investment and other tax credits	(975)	(460)
State	382	384
	$1,220	$1,740
Current	$ 943	$2,578
Deferred (reduction)	277	(838)
	$1,220	$1,740

The total provision for federal income taxes, before investment tax credits, was less than the normal statutory rate in 1979 and 1978 due principally to the lesser capital gains rate applicable to gains on sales of real property and operating rights.

The sources of timing differences and the deferred taxes applicable to each are summarized below:

	1979	1978
Depreciation, repairs and property retirements	$264	$(1,050)
Amortization of tires and tubes	129	208
Estimated liabilities for claims and other items	(27)	284
Settlement of prior years' examinations		(634)
Other	(89)	354
	$277	$ (838)

Federal income tax returns through 1975 have been examined and settled.

T.I.M.E.--DC, INC.
(Consolidated Statements of Earnings)

	1979	1978
Earnings before income taxes	2,341,000	6,977,000
Income taxes (Note C)	640,000	2,933,000
Net earnings	$1,701,000	$4,044,000

(Notes to Financial Statements)

C. Income Taxes:

The provision for income taxes is composed of the following:

	Year Ended December 31, 1979	Year Ended December 31, 1978
Income taxes currently payable		
Federal	$ 64,000	$2,844,000
State	149,000	404,000
	213,000	3,248,000
Deferred income taxes		
Prepaid tires	(127,000)	79,000
Bonus accruals	101,000	(101,000)
Accelerated depreciation	(70,000)	(625,000)
Estimated liability for claims and insurance	(48,000)	(254,000)
Vacation Accrual	-	294,000
Other, net	54,000	34,000
	(85,000)	(573,000)
Investment tax credits		
Deferred	996,000	651,000
Amortization	(484,000)	(393,000)
	512,000	258,000
Income tax provision	$640,000	$2,933,000

At December 31, 1979 and 1978, deferred investment tax credits amounted to $1,881,000 and $1,369,000, respectively.

The difference between the provision for income taxes and the amount that would be computed using the federal statutory rate is attributable to the following:

	Year Ended December 31, 1979	Year Ended December 31, 1978
Expected federal income tax	$1,057,000	$3,336,000
Amortization of investment tax credits	(484,000)	(393,000)
Tax effect of capital gains rates	(22,000)	(170,000)
State taxes	72,000	180,000
Other, net	17,000	(20,000)
Income tax provision	$ 640,000	$2,933,000

THE BEKINS COMPANY
(Statement of Consolidated Income)

	1979	1978
	(thousands of dollars	
Income (loss) before income taxes	3,280	(519)
Income taxes (credits)--Note D:		
Federal	917	(649)
State	304	35
	1,221	(614)
Net income	$2,059	$ 95

(Notes to Consolidated Financial Statements)

Note D--Income Taxes

The provision for income taxes consists of the following:

	1979	1978
	(Thousands	of dollars)
Current	$ 808	$(1,418)
Deferred	413	804
	$1,221	$ (614)

The Company's tax expense (credit) differs from the amount computed by applying the statutory federal income tax rate of 46% for 1979 and 48% for 1978 to income (loss) before income taxes due principally to recognition of investment tax credits, amortization of intangible assets, and in 1979, capital gain rates on the gain on sale of real estate.

Deferred income taxes result from timing differences in the recognition of revenue and expense for tax and financial reporting purposes. Deferred income taxes for 1979 and 1978 applicable to such timing differences are summarized as follows:

	1979	1978
	(Thousands	of dollars)
Depreciation	$262	$306
Self-funded workers' compensation and cargo loss and damage claims reserves	44	252
Change in tax accounting method for treatment of bad debts and vacation accrual	22	73
Other	85	173
	$413	$804

BRANCH INDUSTRIES, INC.
(Statements of Consolidated Earnings)

	1979	1978
Earnings before taxes on income	$2,624,400	$4,361,000
Taxes on income (Notes 1 and 7):		
Current	79,300	1,665,200
Deferred	731,700	359,300
	811,000	2,024,500
NET EARNINGS	$1,813,400	$2,336,500

(Notes to Financial Statements)

TAXES ON INCOME

Income tax expense consists of the following components:

	1979			1978		
	Federal	State and local	Total	Federal	State and local	Total
Current tax expense	$(161,700)	$241,600	$ 79,300	$1,307,700	$357,500	$1,665,200
Deferred tax expense	731,700	-	731,700	341,300	18,000	359,300
	$ 570,000	$241,000	$811,000	$1,649,000	$375,500	$2,024,500

In 1978, the current tax provision includes a charge in lieu of income taxes representing the utilization of tax losses of acquired companies. This amount was $830,000, which has been reflected as a reduction of operating rights in the accompanying balance sheet.

U.S. TRUCK LINES, INC. OF DELAWARE
(Consolidated Statements of Income and Retained Earnings)

	1979	1978
Income before provision for income taxes	$19,001,249	$18,283,024
Provision for income taxes:		
State and local	744,583	740,330
Federal:		
Current	5,877,000	6,923,000
Deferred	1,172,200	389,900
	7,793,783	8,053,230
Net income for the year	$11,207,466	$10,229,794

(Notes to Financial Statements)

Federal Income Tax Reconciliation:

A reconciliation of the amount computed by applying the statutory tax rate (46% in 1979 and 48% in 1978) to income before federal income tax and the provision for federal income tax is as follows:

	1979		1978	
	Amount	% of Pretax Income	Amount	% of Pretax Income
Income tax at statutory rate	$8,401,091	46.0%	$8,420,493	48.0%
Increase (decrease) in taxes resulting from:				
Investment tax credit	(1,075,159)	(5.9)	(804,954)	(4.6)
Tax exempt interest	(198,019)	(1.1)	(212,256)	(1.2)
Other	(78,713)	(.4)	(90,383)	(.5)
Provision for federal income tax	$7,049,200	38.6%	$7,312,900	41.7%

Investment tax credits—methods of recognition

The predominant method used by the surveyed companies to account for the investment tax credit was the "flow through" method. Thirty carriers recognized the investment tax credit using the "flow through" method and twelve companies used the "deferral method". One report did not disclose the accounting method used.

EXAMPLE Flow through method

BURNHAM INDUSTRIES, INC.
(Accounting Policies Footnote)

Income Taxes: Deferred income taxes arising from the use of accelerated depreciation for income tax purposes and straight-line for financial reporting purposes have been provided for in the accompanying financial statements. Investment tax credits are recognized as a reduction of federal income tax expense in the year in which the related property is placed in service. The realized investment credit was $183,000 in 1979 and $76,000 in 1978.

EXAMPLE Deferral method

MID-AMERICAN LINES, INC.
(Accounting Policies Footnote)

Income taxes:

The Federal investment tax credit has been deferred in the year in which it has been utilized to reduce income taxes and is being amortized over the service lives of the related assets.

Investment tax credits—other disclosures

Virtually all reports disclosed the amount of investment tax credit utilized. Table 28 indicates the methods used by the surveyed companies.

TABLE 28 METHODS USED TO DISCLOSE AMOUNT OF INVESTMENT TAX CREDIT UTILIZED

	No. of Surveyed Companies
Disclosed in a footnote	37
Shown on the income statement	4

EXAMPLES Disclosure of investment tax credit

BRIGGS TRANSPORTATION CO.
(Notes to Financial Statements)

Income Taxes:

	Year ended December 31	
	1979	1978
Currently payable (refundable):		
Federal	$ (835,000)	$ 55,000
Less--Investment credit		(45,000)
New jobs tax credit		(100,000)
Less reinstatement upon carryback of loss--Investment tax credit	455,000	
New jobs tax credit	100,000	
	(280,000)	(90,000)
State	(120,000)	5,000
Total current income tax credit	(400,000)	(85,000)
Deferred income taxes	(1,145,000)	(330,000)
	$(1,545,000)	$(415,000)

A reconciliation of the ordinary federal income tax computed at a rate of 46% and 48% respectively with the actual amounts provided is as follows:

	Year ended December 31	
	1979	1978
Ordinary federal income tax	$(1,585,000)	$ 26,000
Investment tax credit		(420,000)
State income taxes, net of federal benefit	(115,000)	1,000
Amortization of operating authorities	50,000	59,000
Investment tax credit carryforwards resulting from carryback of 1979 loss	160,000	
New jobs tax credit, net of federal cost		(52,000)
Other	(55,000)	(29,000)
	$(1,545,000)	$(415,000)

Deferred income taxes result from timing differences in the recognition of income and expense for book and income tax purposes. The decrease in deferred income taxes in 1979 and 1978 resulted from the following differences:

	Year ended December 31	
	1979	1978
Excess of book over tax depreciation, including class life (ADR)	$ 140,000	$ 75,000
Excess of book over tax gains on property and equipment disposals	(200,000)	(125,000)
Excess of book over tax expense resulting from capitalization of leases		5,000
Application of tax carryforwards:		
Net operating loss	810,000	
Investment tax credits	295,000	375,000
New jobs tax credit	100,000	
	$1,145,000	$[illegible]30,000

Investment tax credits, new jobs tax credits and tax benefit of the net operating loss carryforward aggregating $1,812,000 have been applied to reduce deferred income taxes. In addition, investment tax credits aggregating $369,000 were not applied due to limitation rules. These credits, if not utilized, will expire as follows:

	Available for Federal Income Tax Purposes	Carryforwards Available for Reduction of Future Income Tax Expense
Investment tax credits; expire:		
1982	$ 78,000	
1983	196,000	
1984	366,000	
1985	422,000	$ 160,000
1986	209,000	209,000
	$1,271,000	$ 369,000
New jobs tax credit; expires 1985	$ 100,000	
Net operating loss carryforward; expires 1986	$1,580,000	

LEASEWAY TRANSPORTATION CORP.
(Statements of Consolidated Earnings)

	1979	1978
Income Taxes		
Current	19,390,000	20,680,000
Deferred	8,310,000	9,070,000
Investment tax credits	(7,370,000)	(10,700,000)
	20,330,000	19,050,000

Earnings per share

The following are examples of earnings per share.

EXAMPLES Disclosure of earnings per share

CAROLINA FREIGHT CARRIERS CORPORATION
(Statements of Earnings)

	1979	1978
Net Earnings Per Share of Common Stock:		
Primary	$1.81	$1.65
Fully diluted	$1.78	$1.62

(Accounting Policies Footnote)

Primary and fully diluted earnings per share for 1979 and 1978 have been computed on the weighted average number of common shares outstanding, after deducting dividends on preferred stock. In addition, these computations assume that stock options exercisable by year-end were exercised at the beginning of the year and that the proceeds were used to purchase stock at the average market price during the year. The computation of fully diluted earnings per share is further based on the assumption that the convertible debentures were converted into common shares as of the beginning of the year and that the related interest, net of income taxes, was eliminated.

LIQUID TRANSPORTERS, INC.
(Consolidated Statements of Earnings)

	1979	1978
Net earnings per share of common stock (Note A-6)	$2.00	$1.55
Shares used in computing net earnings per share	726,422	725,397

(Accounting Policies Footnote)

Net Earnings Per Share of Common Stock--Net earnings per share of common stock are based on the average number of shares of common stock outstanding, net of treasury shares, adjusted in 1978 for a stock dividend paid on December 1, 1978. Shares issuable upon the exercise of stock options are excluded from the average number of shares for the computation of net earnings per share since their effect is not significant.

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IU INTERNATIONAL CORPORATION
(Consolidated Statements of Earnings)

	1979	1978*
Earnings per share:		
Primary:		
Continuing operations	$1.91	$1.91
Discontinued ocean shipping operations	(.03)	(1.61)
	$1.88	$ .30
Assuming full dilution:**		
Continuing operations	$1.79	$1.80
Discontinued ocean shipping operations	(.03)	(1.48)
	$1.76	$ -

* Restated to segregate discontinued ocean shipping operations

** Not reported for 1978 due to anti-dilutive effect of convertible securities.

(Accounting Policies Footnote)

Earnings per share: Primary earnings per share, computed after deducting the dividend requirement on preferred stock, are based on the average number of shares of both common and Special Stock, Series A outstanding each year and the dilutive effect of stock option and stock purchase plans and warrants. The Special Stock, Series A has been included using the conversion rates applicable during each period.

Earnings per share assuming full dilution reflect, in addition to the primary computation, the dilutive effect of (a) the conversion of convertible preferred stock and convertible bonds after the elimination of the dividend requirements on such convertible preferred stock and the interest, net of income taxes, applicable to the convertible bonds, and (b) the conversion of Special Stock, Series A at the rate applicable in 1988.

SECTION G

Statement of Changes in Financial Position

The presentation format used for the statement is shown in Table 29.

TABLE 29 FUNDS STATEMENT FORMAT USED BY SURVEYED COMPANIES

	No. of Surveyed Companies
Sources equal applications	12
Sources less applications equal working capital change	28
Balance of working capital at end of year	3
	43

EXAMPLES **Format of statements of changes in financial position**

FLEXI-VAN CORPORATION

(Consolidated Statements of Changes in Financial Position)

	1979	1978
Funds provided by:		
Net income	$ 26,640,000	$ 20,505,000
Charges not requiring current outlay of working capital:		
Depreciation	44,688,000	45,903,000
Deferred federal and state income taxes	2,764,000	7,793,000
Total from operations	74,092,000	74,201,000
Additions to long-term debt	84,259,000	116,165,000
Issuance of Preferred stock	35,155,000	--
Property dispositions	12,803,000	15,014,000
Decrease (increase) in other assets	473,000	(344,000)
	$206,782,000	$205,036,000
Funds used for:		
Revenue equipment additions	$192,617,000	$181,915,000
Other property additions	4,518,000	2,533,000
Reduction of long-term debt	16,191,000	11,955,000
Cash dividends	7,682,000	4,417,000
Purchase of treasury stock	1,247,000	1,661,000
Other	59,000	(66,000)
Increase (decrease) in working capital	(15,532,000)	2,621,000
	$206,782,000	$205,036,000
Increase (decrease) in working capital by component:		
Cash	$ (673,000)	$ (542,000)
Receivables	8,456,000	10,036,000
Prepaid expenses	1,036,000	(370,000)
Accounts payable and accrued liabilities	(18,230,000)	(5,782,000)
Current maturities of long-term debt	(5,132,000)	(444,000)
Dividend payable	(989,000)	(277,000)
Increase (decrease) in working capital	$(15,532,000)	$ 2,621,000

ROADWAY EXPRESS, INC.
(Statement of Changes in Consolidated Financial Position)

	1979	1978
SOURCE OF FUNDS		
From operations:		
Net income	$ 57,193,187	$ 56,916,737
Charges to income not requiring funds:		
Provision for depreciation and amortization	47,470,904	38,552,797
Increase in other liabilities	7,189,000	9,980,000
TOTAL FROM OPERATIONS	$111,853,091	$105,449,534
Disposal of carrier operating property	2,942,900	3,818,408
Decrease in other assets	42,689	--
TOTAL SOURCE OF FUNDS	$114,838,680	$109,267,942
APPLICATION OF FUNDS		
Additions to carrier operating property	$ 72,249,198	$ 78,578,182
Increase in operating rights	2,906,815	397,819
Increase in other assets	--	686,489
Purchase of Common Stock for treasury	22,620,000	--
Cash dividends declared	14,823,350	11,740,549
TOTAL APPLICATION OF FUNDS	$112,599,363	$ 91,403,039
INCREASE IN WORKING CAPITAL	$ 2,239,317	$ 17,864,903
WORKING CAPITAL AT BEGINNING OF YEAR	102,983,931	85,119,028
WORKING CAPITAL AT END OF YEAR	$105,223,248	$102,983,931

INCREASE (DECREASE) IN COMPONENTS OF WORKING CAPITAL		
CURRENT ASSETS:		
Cash and marketable securities	$(19,420,564)	$ 52,218,207
Notes and accounts receivable	8,366,943	6,828,731
Prepaid expenses and supplies	4,278,110	1,576,187
	$ (6,775,511)	$ 60,623,125
CURRENT LIABILITIES		
Accounts payable and accrued items	$ (1,404,053)	$ 24,446,215
Federal income taxes	(7,610,775)	18,312,007
	$ (9,014,828)	$ 42,758,222
INCREASE IN WORKING CAPITAL	$ 2,239,317	$ 17,864,903

NEW PENN MOTOR EXPRESS, INC.
(Consolidated Statement of Changes in Financial Position)

	1979	1978
Working capital provided from		
Net income	$ 3,606,159	$ 2,802,897
Add charges (deduct credits) against income not affecting working capital		
Depreciation and amortization	1,856,955	1,584,607
(Gain) on disposition of property and equipment	(87,174)	64
(Gain) on disposition of investments		(5,875)
Deferred taxes	208,449	217,496
Working capital provided from operations	5,584,389	4,599,189
Reclassification of investments from non-current to current assets		29,500
Increase in long-term debt	1,692,676	50,000
Proceeds from disposition of property and equipment	168,002	101,012
Proceeds from employee stock options exercised	15,288	9,349
Proceeds from disposition of investments		33,250
Reduction of purchase price of operation authority		50,000
Other assets	13,254	4,680
Total working capital provided	7,473,609	4,876,980
Working capital used for		
Acquisition of property and equipment	5,519,986	3,720,358
Reduction of long-term debt	120,122	72,667
Cash dividends paid	527,081	441,463
Purchase of non-compete agreement	33,333	50,000
Acquisition of operating authorities	20,468	28,912
Deposits	244,732	
Total working capital used	6,465,722	4,313,400
Increase in working capital	$ 1,007,887	$ 563,580
Increase (decrease) in working capital consisted of		
Cash and temporary cash investments	$(1,782,711)	$ 2,116,371
Marketable securities	3,517,669	(1,889,709)
Accounts receivable	347,267	587,827
Inventories	116,677	(15,405)
Prepaid expenses	(197,335)	175,019
Accounts payable	(120,545)	(10,155)
Current maturities of long-term debt	(32,706)	(9,338)
Accrued liabilities	(870,059)	(347,498)
Other current liabilities	29,630	(43,532)
	$ 1,007,887	$ 563,580

SECTION H

Accounting Policies Footnotes

APB Opinion No. 22, "Disclosure of Accounting Policies," requires disclosure of accounting policies in the notes to the financial statements. All reports reviewed had an accounting policies footnote or a summary of the company's accounting principles. The titles most commonly used were "accounting policies" or "accounting principles." The most frequent type of disclosure included in the accounting policies footnote and the frequency of disclosure are shown in Table 30.

It should be noted that Opinion No. 22 requires disclosure of "principles and methods peculiar to the industry in which the reporting entity operated, even if such principles and methods are predominantly followed in that industry." The subjects that appear to be peculiar to the motor carrier industry are operating rights, ICC regulations, tires, claims, and revenue recognition.

It should also be noted that some policies may be disclosed in separate footnotes, and that the following tabulation includes only those items described in the principles or policies footnote.

TABLE 30. SUBJECT MATTER INCLUDED IN ACCOUNTING POLICIES FOOTNOTE

	No. of Surveyed Companies		No. of Surveyed Companies
Depreciation and/or equipment	43	Interstate Commerce Commission regulations	12
Consolidation	40	Business segment	9
Operating rights	39	Leasing activities	4
Investment tax credits	37	Marketable securities and/or investments	3
Earnings per share	29	Foreign currency transactions	3
Income taxes	26	Fiscal year end	3
Revenue recognition	26	Accrual for future equipment repairs	3
Self-insurance or claims liability	20	Stock options	2
Tires and tubes	17	Reclassification of income statement	2
Pension plans	14	Capitalization of interest	2
Inventories	14		

EXAMPLES Accounting policies footnotes

ARKANSAS BEST CORPORATION

Summary of Significant Accounting Policies

Consolidation: The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant inter-company accounts and transactions have been eliminated.

Inventories: Substantially all inventories are stated at the lower of standard cost (which approximates actual cost on the first-in, first-out basis) or market.

Property, Plant and Equipment: Property, plant and equipment is recorded at cost. Beginning in 1979, the Company adopted the policy of capitalizing interest as a component of the cost of acquiring certain assets, in accordance with the provisions of Financial Accounting Standards Board Statement No. 34 (FASB 34). Depreciation and amortization have been provided by the straight-line method to amortize the cost, less estimated salvage amounts, of such assets over their estimated useful lives. Gains and losses are reflected in the year of disposal. Tires and tubes are expensed in the year placed in service, except those acquired on December 31, 1978 in the Navajo Freight Lines, Inc. acquisition which were expensed during 1979.

Intangibles: Operating rights, franchises and intangibles are stated at cost and represent principally the excess of cost over underlying net assets, at dates of acquisition, of various other motor common carriers or substantial operating segments thereof. Intangibles acquired subsequent to October 31, 1970, ($15,684,634), are being amortized over 40 years, while intangibles acquired prior to that date are not being amortized.

Income Taxes: Deferred income taxes relate principally to the excess of depreciation taken for income tax purposes over that charged to income for financial reporting purposes. Investment tax credits are accounted for on the flow-through method.

Revenue Recognition: Carrier operating revenues are recognized on the date the shipments are picked up from the customer.

Net Income (Loss) Per Common Share: Net income (loss) per common share is based on the average number of shares outstanding during each year, adjusted to include common stock equivalents attributable to dilutive stock options.

CAROLINA FREIGHT CARRIERS CORPORATION

Summary of Significant Accounting Policies:

The financial statements have been prepared in conformity with generally accepted accounting principles. Though the Company's accounting records are maintained in accordance with the requirements of the Interstate Commerce Commission, differences in the accounting requirements are not significant.

The Company's wholly-owned subsidiary, Motor Carrier Insurance, Ltd., was organized in May, 1977, and is shown on the balance sheet at cost ($120,000) adjusted for the Company's equity in undistributed earnings.

The cost of revenue equipment does not include the cost of tires, which is carried as a prepaid expense and amortized over the estimated tire lives.

Depreciation of plant and equipment is computed on the straight-line basis for book and financial statement purposes over the following estimated useful lives (in years)--

Revenue and service equipment (5 to 7, 10-15% salvage)

Structures (15 to 50)

Other equipment (5 to 10, 10% salvage)

Leasehold improvements (lease term)

Expenditures for normal maintenance and repairs are expensed, whereas those for renewals or betterments that affect the nature of an asset or increase its useful life are capitalized. Upon the retirement of fixed assets, the related accumulated depreciation is removed from the accounts and any gain or loss is reflected in the Company's statement of earnings.

Operating rights acquired after October 31, 1970 ($4,111,000) are being amortized over a forty-year period on the straight-line basis.

Claims payable reflect the Company's estimated cost of uninsured claims incurred but not paid prior to year-end for cargo loss and damage, bodily injury and property damage, workers' compensation and non-contractual employee medical expenses.

The Company provides for the income tax effect of timing differences between financial and taxable income. These differences arise principally from depreciation methods, the treatment of tires in service, timing of revenue recognition and the treatment of claims payable under the Company's insurance program.

The investment tax credits arising from property acquisitions after 1970 are being amortized over the lives of the related assets.

For financial statement purposes, the Company recognizes freight charges as revenue when freight is received for shipment, and only costs incurred through the date of the financial statements are accrued.

Primary and fully diluted earnings per share for 1979 and 1978 have been computed on the weighted average number of common shares outstanding, after deducting dividends on preferred stock. In addition, these computations assume that stock options exercisable by year-end were exercised at the beginning of the year and that the proceeds were used to purchase stock at the average market price during the year. The computation of fully diluted earnings per share is further based on the assumption that the convertible debentures were converted into common shares as of the beginning of the year and that the related interest, net of income taxes, was eliminated.

TRI-STATE MOTOR TRANSIT CO.

Summary of Significant Accounting Policies

Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, after elimination of all material intercompany accounts and transactions.

Accounting Principles

The accompanying consolidated financial statements are prepared in accordance with generally accepted accounting principles, which differ from the accounting regulations of the Interstate Commerce Commission with respect to amortization of operating rights.

Tires and Tubes in Service

The cost of tires and tubes placed in service, inclusive of those purchased with new revenue equipment, is amortized on the straight-line method over their estimated useful life.

Property and Equipment and Depreciation

Depreciation charged to operations for financial statement purposes is computed by the straight-line method over the following estimated useful lives:

	Years
Structures and improvements	10-33
Revenue equipment	5- 7
Service cars and equipment	3
Furniture, fixtures and equipment	5-10

Expenditures which significantly increase values or extend useful lives are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Upon sale or retirement of property and equipment, the cost and related accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss is included in current operations.

Operating Rights

Operating rights are stated at cost and consist principally of operating rights purchased and amounts paid for subsidiaries in excess of the net assets at date of acquisition. The major portion of the rights were acquired before October 31, 1970, and are not being amortized; rights acquired subsequently are being amortized over forty years.

Self Insurance

Provision is made for incurred cargo and vehicle loss and damage claims as well as employee health and welfare program claims which would not be covered in insurance policies.

Investment Tax Credits

Investment tax credits are used to reduce the provision for Federal income taxes in the year the related assets are placed in service.

Earnings Per Share

Earnings per share are computed on the weighted average number of shares outstanding for the year--1,279,000 shares in 1979 and 1,328,000 shares in 1978.

Other Noteworthy Disclosures

Inflation accounting

In compliance with FASB Statement No. 33, "Financial Reporting and Changing Prices," several companies surveyed included a separate unaudited footnote disclosing information as to the effects of inflation and price changes on their results of operations and financial position as reported on a historical cost basis. Additional information related to Statement No. 33 is included in Section D.

EXAMPLE Statement No. 33 disclosure

ROADWAY EXPRESS, INC.
(Notes to Financial Statements)

Supplemental Information And Effects Of Changing Prices (Unaudited)

Basis of Preparation of 1979 Supplemental Data As required by Financial Accounting Standards Board (FASB) Statement No. 33, "Financial Reporting and Changing Prices," the company must provide supplemental information concerning the effects of changing prices on its financial statements. FASB objectives are to recognize the present inflationary environment and the significant effects that changing prices have on business enterprises.

Because there is presently no consensus on which aspects of inflation (if any) should be reported, the FASB has devised an experiment requiring certain large, publicly held companies to present supplemental information reflecting inflation measurements. During the experimental period the FASB decided to focus on those items most affected by changing prices, that is: (1) the effect of general inflation on properties and related depreciation expense, and (2) the effect of general inflation on monetary assets and liabilities.

The supplemental information on changing prices does not reflect a comprehensive application of inflation accounting. It describes only the inflationary effect of a rise in the general price level on the purchasing power of the dollar (called general inflation). It is important that financial statement users recognize the inherent limitations in this type of measurement. The restated amounts cannot be assumed to show actual or correct changes in values, nor do they consider operating and managerial factors that influence the value of properties and other assets.

Net Income

The accompanying supplemental financial data presents net income under two measurement methods. The company's primary financial statements are prepared based on historical costs; i.e., prices that were in effect at the time the transactions occurred. To show the effect of general inflation, historical net income is restated in dollars of the same (constant) general purchasing power, as measured by the average level of the Consumer Price Index (CPI) for 1979. Under this measurement method, historical amounts of depreciation expense and the gain on the sale of properties are adjusted to reflect the change in the level of the CPI that has occurred since the date the related properties were acquired. The amounts of revenues and other costs and expenses already approximate average 1979 constant dollars and remain unchanged from those amounts presented in the primary financial statements.

Income Taxes

Provision for income taxes remains the same as reported in the primary financial statements. Under present tax laws, allowable deductions for depreciation do not recognize the effects of inflation. Thus, taxes are levied on the company at rates which, in real terms, exceed established statutory rates. During periods of persistent inflation and rapidly increasing prices, such a tax policy effectively results in a tax on shareholders' investment in the company.

Net Monetary Assets

When prices are increasing, the holding of net monetary assets results in a loss of general purchasing power because the amount of money received upon liquidation will be in dollars of diminished value. Net monetary assets include cash, marketable securities, receivables and fixed liabilities.

For the company the approximate change in the stated amount of net monetary assets it held during the year, shown separately in the accompanying supplemental data, has been measured by the change during 1979 in the Consumer Price Index. Funds available for distribution to shareholders are not affected.

Supplemental Financial Data And Effects Of Changing Prices

For the Year Ended December 31, 1979
(dollars in thousands)

Net income (based on historical costs) as reported in the statement of consolidated income		$ 57,193
Approximate change in historical costs due to changes in the Consumer Price Index:		
Additional provision for depreciation	$15,183	
Reduction of gain on disposal of carrier operating property	1,853	17,036
Net Income restated for changes in the Consumer Price Index (in average 1979 dollars)		$ 40,157
Approximate change in the stated amount of net monetary assets held during the year due to changes in the Consumer price Index (decrease)		$(13,303)

Five-Year Comparison Of Selected Supplemental Financial Data And Effects Of Changing Prices

(in average 1979 dollars; in thousands, except per share data)

	Year Ended December 31				
	1979	1978	1977	1976	1975
Historical cost information adjusted to reflect changes in the Consumer Price Index:					
Revenue	$1,093,662	$1,096,091	$960,648	$782,516	$679,131
Net income	40,157	*	*	*	*
Net income per share	2.00	*	*	*	*
Approximate change in the stated amount of net monetary assets held during the year due to changes in the Consumer Price Index (decrease)	(13,303)	*	*	*	*
Net assets at year end	386,123	*	*	*	*
Other information adjusted to reflect changes in the Consumer Price Index:					
Cash dividends declared per share	.750	.640	.569	.527	.421
Market price per share at year end	25.06	26.52	36.80	56.13	55.23
Average Consumer Price Index (1967 = 100)	217.4	195.4	181.5	170.5	161.2

*Disclosure is not required for years prior to 1979.

YELLOW FREIGHT SYSTEM, INC.
(Notes to Financial Statements)

Statement of Consolidated Income Adjusted for General Inflation

For the Year Ended December 31, 1979

	As Reported in the Primary Statement	Adjusted for General Inflation (Constant Dollar)
	(In Thousands)	
Operating revenues	$862,876	$862,876
Operating expenses:		
Depreciation	$ 43,579	$ 53,879
Other operating expenses	778,503	778,503
Total operating expenses	$822,082	$832,382
Income from operations	$ 40,794	$ 30,494
Non-operating (income) expenses:		
Interest expense	$ 5,527	$ 5,527
Interest income	(287)	(287)
Losses on disposition of property	178	1,195
Other, net	913	1,209
Total non-operating expenses	$ 6,331	$ 7,644
Income before income taxes	$ 34,463	$ 22,850
Provision for income taxes	$ 13,728	$ 13,728
Net income	$ 20,735	$ 9,122
		$ 16,637

Five Year Comparison of Selected Supplementary Financial Data Adjusted for Effects of General Inflation (In Thousands Except Per Share Data and Consumer Price Index)

	(Average 1979 Dollars)				
	1979	1978	1977	1976	1975
Gain from decline in purchasing power of net amount owed	$862,876	$868,694	$776,010	$653,024	$563,034
Operating revenues					
Historical cost information adjusted for general inflation:					
Net income	$ 9,122				
Net income per common share	$ .64				
Net assets at year end	$297,238				
Not required for years prior to 1979					
Other information:					
Gains from decline in purchasing power of net amounts owed	$ 16,637				
Cash dividends declared per common share	$ .72	$ .71	$ .65	$ .56	$ .51
Market price per common share at year-end	$ 14	$ 21	$ 33	$ 54	$ 46
Average consumer price index	217.4	195.4	181.5	170.5	161.2

Note 8--Supplementary Information on the Impact of Inflation (Unaudited)

General

In September, 1979, the Financial Accounting Standards Board issued Statement No. 33 (FASB No. 33) which requires the disclosure of certain information on the effects of inflation on portions of business enterprises. The accompanying statement of consolidated income adjusted for general inflation and the five-year comparison of selected supplementary financial data adjusted for the effects of general inflation complies with this requirement.

The technique employed to report constant dollar information is to state certain financial statement data in terms of average 1979 dollars. Therefore, the amounts shown for any one year will automatically change in the report for the subsequent year. The reader is cautioned not to infer too much significance from any one year's adjusted results, and even when several years are viewed consecutively, the information is considered to be of limited use unless the reader has a thorough understanding of the accounting principles utilized in compiling the data.

In using the constant dollar information, it is important to understand that the effect of inflation on monetary items is incurred immediately and is described as gain from decline in purchasing power of net amounts owned, but is excluded from constant dollar net income. Conversely, the effect of inflation on significant nonmonetary assets is recognized over the holding period of the asset and is included in constant dollar net income. Thus, the inflation adjusted income statement does not reflect the full impact of inflation on the company's operations.

As permitted under the provisions of FASB No. 33, the company has elected to provide replacement cost information for the year 1979 in lieu of current cost data. The company's annual report to the Securities and Exchange Commission, Form 10-K, contains information with respect to the estimated replacement costs of productive capacity at December 31, 1979 and December 31, 1978, and the related estimated effect of such costs on depreciaton expense for the years then ended.

Summary of Information Presented

The consolidated statement of income shown under the heading "Adjusted for General Inflation" is derived by restating operating and non-operating depreciation, depletion and amortization, and gains and losses resulting from the disposition of property, to dollars whose purchasing power is equivalent to the average purchasing power of the dollar for the year 1979 as measured by the Consumer Price Index for All Urban Consumers (CPI-U). All revenues and expenses, other than those described above, are deemed to be stated in average 1979 dollars in the primary financial statement, thus requiring no adjustments in the constant dollar statement. As prescribed by FASB No. 33, no adjustments have been made to the provisions for income taxes.

The aggregate amount of depreciation expense in the statement of consolidated income adjusted for general inflation totals $54,385,000 in the inflation adjusted statement and $44,019,000 in the primary statement.

Inflation also affects monetary assets, such as cash and receivables, which lose purchasing power during inflationary periods. Conversely, liabilities benefit business enterprises during such periods because less purchasing power will be required to satisfy these obligations. Since the company had net monetary liabilities during 1979, a period in which the purchasing power of the dollar decline, a gain in purchasing power was experienced.

The five-year comparison shows the effect of adjusting selected historical dollars to average 1979 dollars, as measured by the CPI-U. Net assets at year-end were calculated by converting all items except certain less significant nonmonetary items to average 1979 dollars.

LEASEWAY TRANSPORTATION CORP.
(Notes to Financial Statements)

Information About The Impact Of Inflation (unaudited)

The discussion and schedules following discloses information about the impact of inflation on the Company's operations.

Introducton

Inflation has been an increasingly significant factor in the economic life of the United States during the past 15 years. Throughout 1979, inflation continued at an unacceptably high rate, as measured by the consumer price index which rose 13.3%. The basic underlying cause of this continued decline in the purchasing power of our currency is the national, collective failure to improve productivity in our industrial, commercial, financial and government entities. This trend reached a new low point in 1979, when national productivity actually declined from 1978.

Continuous deficit spending by all levels of government, even though tax revenues are escalating rapidly, is a deterrent to productivity improvements. The excess of imports over exports which our country has been experiencing puts further downward pressure on the purchasing power of the U.S. dollar, and reduces the ability of the U.S. companies to compete in both domestic and world markets.

The inflationary trend of the past 15 years has an impact upon the conventional measures of economic performance. Financial statements presented in accordance with generally accepted accounting principles have traditionally reported amounts in terms of historical cost--a history of the company's transactions stated in the dollars in which the transactions actually occurred. These primary financial statement amounts are not adjusted to give effect to changes in the purchasing power of the dollar over a period of time.

Inflation will not be contained, much less reduced, by virtue of changed financial reporting practices. The factors that will dampen inflation are productivity improvements resulting from capital spending for cost-effective equipment, reduced government spending, a higher national savings rate, and lower personal consumption.

New methods of reporting financial results may, however, help to reflect the economic conditions that have led to taxation of the "inflation profits" which is a tax that diminishes the very capital that is so essential to achieving the productivity improvements we must realize in the future.

In an attempt to increase understanding of the subject, the Financial Accounting Standards Board issued Statement No. 33, "Financial Reporting and Changing Prices" in 1979. This Statement establishes standards for reporting certain information intended to describe the effects of inflation. The Board acknowledges that the usefulness of the information has not been determined.

Supplemental Information Presented

The information which follows complies with the standards required by Statement No. 33. The supplementary schedule of consolidated earnings and changes in consolidated shareholders' equity adjusts only selected amounts in the primary financial statements. Amounts in the column "As Adjusted for Changing Prices" have been determined by recalculating depreciation, gain on sale of equipment, and minority interests in net earnings of subsidiaries to reflect the lower average purchasing power of the U.S. dollar during 1979. Depreciation expense in the primary financial statements represents an allocation to expense of a portion of historical cost, such allocation being stated in dollars having differing purchasing power. Depreciation expense in the column "As Adjusted for Changing Prices" expresses these expense dollars in 1979 purchasing power amounts. Revenues and all other expenses are not restated on the assumption that they are stated at the average price level for the year.

The effect of inflation on Leaseway Transportation is particularly important as it relates to the historical cost and depreciation expense of revenue equipment and other fixed assets. The recovery of asset cost has generally been measured by the amount of depreciation charged against revenues. Depreciation does nothing more, however, than match the cost of acquired assets to the time over which revenues are produced by those assets. More recently, attention has been focused on the need to recover, in the marketplace, the current cost of replacing the revenue-producing assets. When those assets have long lives, the differences between original cost and the current cost is often staggering. And, if that single measure is highlighted, erroneous conclusions could be reached. Statement No. 33, attempts to portray the impact of inflation by adjusting depreciation expense from an historical cost basis to a current cost basis. This is a simplistic approach to accounting for the effects of inflation. It is not realistic to permit only one expense item to vary, in this case depreciation expense, while revenues and all other expenses are held constant.

Equally important to an analysis of the impact of inflation on Leaseway Transportation is the item captioned "Gain from decline in purchasing power of net amounts owed". Inflation affects monetary assets, such as cash and receivables which lose purchasing power during inflationary periods. As to monetary liabilities, such as accounts payable, accrued liabilities and equipment debt, the Company benefits during such periods because currency with less purchasing power will be used to satisfy these obligations. Since Leaseway Transportation's monetary liabilities were substantially in excess of the monetary assets during the year, there was a gain of $48.9 million resulting from the decline in purchasing power of the U.S. dollar.

The supplementary schedule of selected data presents revenues, cash dividends per share, and market price per share in historical dollars and in dollars restated to a purchasing power equivalent to the average purchasing power of the dollar during 1979.

The index used to restate these amounts is the consumer price index. This index encompasses a wide range of commodities and is not necessairly representative of changes in our operating or financing costs. For example, in 1979 the average cost of a gallon of diesel fuel used in our operations increased 71%, while the consumer price index increased 13.3%.

Discussion of Information Presented

The unique characteristics of Leaseway Transportation's business substantially reduce the risks usually associated with replacing long-lived assets in an inflationary period. The Company's revenue equipment is generally dedicated to the use of an individual customer and is generally specialized to serve that customer's needs. Rates are periodically adjusted to recover the higher costs of new and replacement equipment as it is placed in service. We believe the contractual and traditional relationships with our customers permit us to establish rates adequate to recover the higher costs of both equipment and operations caused by inflation. We are confident that the Company will continue to recoup these higher costs in the future.

It is also important to understand that Statement No. 33 does not permit the gain on monetary items to be reported in net earnings adjusted for inflation. Since the period that Leaseway Transportation owns revenue-producing equipment is about equal to the period of debt-amortization on the equipment, inflation tends to produce offsetting economic effects on our financial statements. The higher depreciation associated with the higher cost of equipment is offset by the relatively fewer dollars needed to repay the debt. We believe these two related items are more appropriately shown together as in the supplementary schedule of changes in consolidated shareholders' equity where their financial effects are offset under the caption "Additions to Shareholders' Equity".

In accordance with Statement No. 33, no adjustment has been made to the provision for income taxes in the accompanying schedule, although the adjustments to increase depreciation expense reduce earnings before tax. This has the effect of increasing the effective income tax rate from 31% reported in the primary financial statements to 80% reported in the schedule. This illustrates the need for national fiscal and tax policies designed to control inflation and to provide adequate capital for future business growth.

One should be cautious not to reach significant conclusions based on any one year's inflation adjusted results. The most useful purpose for these results may be to provide data for making the trend analysis which can be performed when several year's data are reviewed. One trend analysis is to determined whether the Company's return to shareholders in the form of cash dividends per share has surpassed the general rate of inflation. As the supplementary schedule of selected data illustrates, cash dividends, in "real" terms, have increased 131% from 1975 to 1979.

In summary, inflation affects all of us. Leaseway Transportation's management will continue to consider the impacts of inflation in making all of its decisions, including those relating to pricing, capital structure, capital expenditures, and cash dividends, as we continue to manage the Company in the best interests of our shareholders, or customers and our employees.

Supplementary Schedule of Consolidated Earnings and Changes in Consolidated Shareholders' Equity Adjusted for Changing Prices

Year Ended December 31, 1979
(Amounts in Millions Except Per Share Data)

CONSOLIDATED EARNINGS	As Reported in the Financial Statements	As Adjusted for Changing Prices
Revenues	$937.2	$937.2
Costs and Expenses		
Direct operating	632.1	632.1
Depreciation, less gain on sale of equipment of $12.3 and $4.6	147.7	187.1
Administrative and selling	61.4	61.4
Interest less investment income	31.2	31.2
Total	872.4	911.8
Earnings before Income Taxes	64.8	25.4
Income Taxes	20.3	20.3
Earnings before Minority Interests	44.5	5.1
Minority Interests in Net Earnings of Subsidiaries	1.6	.9
Net Earnings	$ 42.9	$ 4.2
Earnings per Share	$ 3.62	$ 0.35
Effective Income Tax Rates	31.4%	79.9%

A reader could be misled by placing too much significance on the inflation-adjusted earnings reported above. We call your attention to the following important points:

(1) While higher depreciation expense reduces the net earnings reported above, this reduction is offset by the gain from decline in purchasing power of net amounts owed reported below.

(2) The apparent 154% increase in the effective income tax rate highlights that, in inflationary periods, our income tax laws are, in fact, a tax that diminishes the very capital essential to achieving growth.

CONSOLIDATED SHAREHOLDERS' EQUITY	As Reported in the Financial Statements	As Adjusted for Changing Prices
Shareholders' Equity, January 1. 1979	$179.5	$295.6
Additions to Shareholder's Equity:		
Net earnings	42.9	4.2
Gain from decline in purchasing power of net amounts owed	-	48.9
Stock options exercised	.4	.4
Total additions	43.3	53.5
Deduction--Cash Dividends	14.5	14.5
Shareholders' Equity, December 31, 1979	$208.3	$334.6

Supplementary Schedule of Selected Data Adjusted for Changing Prices
Five Years Ended December 31, 1979

	1979	1978	1977	1976	1975
Revenues (in millions)					
At Historical Amounts	$937.2	$821.5	$701.4	$570.4	$489.9
In Constant Dollars	$937.2	$913.6	$839.4	$726.9	$660.0
Cash Dividends per Share					
At Historical Amounts	$1.22-1/2	$ 1.10	$ .93	$ .54	$ .39
In Constant Dollars	$1.22-1/2	$ 1.22	$ 1.11	$ .69	$ .53
Market Price per Share at Year End:					
At Historical Amounts	$ 22-3/8	$ 22-1/4	$ 20-5/8	$ 19-3/8	$ 16-3/4
In Constant Dollars	$ 21-1/8	$ 23-7/8	$ 24-1/8	$ 24-1/8	$ 22
Average Consumer Price Index	217.4	195.4	181.5	170.5	161.2

Notes to the Supplementary Schedules

Acounting Policies

The supplementary data are based upon the historical financial statements adjusted for an estimate of the effects of inflation. The information is expressed in average 1979 purchasing power amounts and reflects changes in the purchasing power of the dollar during 1979 as measured by the Consumer Price Index.

Income tax expense has not been adjusted for the effect that would occur if these adjustments were also permitted for income tax purposes.

Changing Prices Calculations

The earnings as adjusted for changing prices were determined by restating the following historical cost amounts to dollars with a purchasing power equivalent to the average purchasing power of the dollar in 1979: revenue equipment, property and equipment, depreciation expense, gain on sale of equipment and the effect of these nonmonetary items on the minority interests in net earnings of subsidiaries. Depreciation expense was calculated using the same methods and rates of depreciation as was used in the primary financial statements.

The gain from decline in purchasing power of net amounts owed was calculated by classifying cash, receivables and investments in securities as monetary assets and all current liabilities, long-term debt and deferred income taxes as monetary liabilities.

ARKANSAS BEST CORPORATION
(Notes to Financial Statements)

Supplemental Information on the Effects of Changing Prices (Unaudited)

Statement of Loss from Continuing Operations Adjusted for Changing Prices

	Year Ended December 31, 1979 (In thousands of dollars)		
	As Reported in the Primary Statements	Adjusted for General Inflation	Adjusted for Changes in Specific Prices (Current Costs)
Operating revenues	$303,220	$303,220	$303,220
Operating expenses and costs, other than depreciation and amortization	282,832	284,832	283,994
Depreciation and amortization	16,823	19,156	20,873
Interest expense	9,400	9,400	9,400
(Gain) on disposals of assets	(2,108)	(599)	(272)
Other expenses--net	396	396	396
	307,343	313,185	314,391
(Loss) before income taxes	(4,123)	(9,965)	(11,171)
Provisions for income taxes (credit)	(3,324)	(3,324)	(3,324)
Net (loss)	$ (799)	$ (6,641)	$ (7,847)
Per share	$ (.21)	$ (1.75)	$ (2.06)
Other Information			
Purchasing power gain from holding net monetary liabilities during the year	-	$ 11,117	$ 11,117
Increase in specific prices (current costs) of inventories and property, plant and equipment held during the year*	-	-	$ 2,859
Less effect of increase in general price level	-	-	1,685
Excess of increase in specific prices over increase in the general price level	-	-	$ 1,174
Net assets (net worth) at year end	$ 43,661	$ 53,270	$ 58,537

*At December 31, 1979, current cost of inventory was $19,724 (historical amount--$19,473) and current cost of property, plant and equipment, net of accumulated depreciation, was $105,138 (historical amount--$95,689).

Five Year Comparison of Selected Supplemental Financial Data Adjusted for Effects of Changing Prices
In Average 1979 Dollars (except as reported amounts)

	Year Ended December 31				
	1979	1978	1977	1976	1975
	(In thousands of dollars, except per share data)				
Operating revenues:					
As reported	$303,220	$205,480	$169,256	$143,076	$113,247
Adjusted for general inflation	303,220	228,615	202,734	182,432	152,729
Cash dividends declared per common share:					
As reported	.60	.57	.51	.44	.19
Adjusted for general inflation	.60	.63	.61	.56	.26
Market price per common share at year-end.					
Historical amount	8.88	10.62	10.00	10.50	7.12
Adjusted for general inflation	8.39	11.38	11.68	13.10	9.31
Average consumer price index	217.4	195.4	181.5	170.5	161.2

Notes to Supplemental Information on the Effects of Changing Prices (Unaudited)

Note 1--Basis of Preparation of 1979 Supplemental Data

As required by Financial Accounting Standards Board (FASB) Statement No. 33, "Financial Reporting and Changing Prices," the Company must provide supplemental information concerning the effects of changing prices on its financial statements. The disclosures are intended to address two different aspects of an inflationary environment: (1) the effect of a rise in the general price level on the exchange value or purchasing power of the dollar (called "general inflation") and (2) the specific price changes in the individual resources used by the Company. Because there is presently no consensus on which aspect of inflation (if any) should be reported, the FASB has devised an experiment requiring certain large, publicly held companies to present supplemental information reflecting both types of inflation measurements.

It is important that financial statements users understand what the inflation-adjusted data is intended to represent, and also recognize its inherent limitations. The Company believes that the following information is essential for a proper understanding and assessment of the data presented.

Partial Application

The supplemental information on changing prices does not reflect a comprehensive application of either type of inflation accounting. During the experimental period the FASB decided to focus on those items most affected by changing prices, that is: (1) the effect of both general inflation and specific price changes on inventories and properties and related cost of goods sold and depreciation expense, and (2) the effect of general inflation on monetary assets and liabilities.

Replacement cost disclosures (ASR No. 190)

In October, 1979, the SEC issued ASR No. 271 which rescinds the replacement cost disclosures for fiscal years ending on or after December 25, 1980. In addition, the replacement cost rule has been waived for companies who provide FASB Statement No. 33 current cost disclosures for fiscal years ending prior to that date.

For 1979 replacement cost disclosures applied to all SEC registrants whose total inventories and gross property, plant and equipment are in excess of $100 million and are more than 10% of total assets at the beginning of the most recent fiscal year.

The following data is required in an unaudited note to financial statements or as a separate section of the financial statements following the notes:

1. The current replacement cost of inventories at each year-end for which a balance sheet is required to be filed.

2. Approximate cost of sales for the two most recent fiscal years as if it had been computed using replacement cost of goods and services at the time sales were made.

3. The estimated current cost of replacing with new assets the productive capacity on hand at each year-end for which a balance sheet is required, together with the depreciated cost of such productive capacity. For this purpose, assets held under financing leases, as they are defined in Rule 3-16(q), shall be included in the computation of productive capacity.

4. The approximate amount of straight-line depreciation, depletion, and amortization for the two most recent fiscal years based upon average replacement cost of productive capacity.

5. A description of methods used in determining the foregoing disclosures plus any other information which management believes is necessary or desirable to either understand the disclosures or the impact of inflation on the registrant's business.

Staff Accounting Bulletin No. 7 issued by the SEC staff clarified the disclosure by stating that the annual shareholders report need only include a general description of the impact of changes (exclusive of any specific quantitative data) in the prices of specific goods and services. However, the shareholders report should include a reference to the Form 10-K replacement cost data. See Section K herein for additional examples and Appendix I for a summary of replacement cost data.

EXAMPLES Disclosure of replacement cost

PEPSICO, INC.
(Notes to Financial Statements)

Replacement Cost Information (Unaudited)

Pursuant to the requirements of the Securities and Exchange Commission, PepsiCo has made certain estimates on a replacement cost basis of its fixed assets, inventories, cost of sales and depreciation expense. The computations were based on the hypothetical assumption that PepsiCo would replace its entire productive capacity and inventories at year-end. As would be expected in periods of rising prices, such computations reflect generally higher replacement cost amounts in 1979 and 1978 than the corresponding historical amounts as reported in the primary financial statements (see supplementary information included in Form 10-K for replacement cost details).

Replacement Cost Disclosures (ASR No. 190)

These disclosures apply to all SEC registrants whose total inventories and gross property, plant and equipment are in excess of $100 million and are more than 10% of total assets at the beginning of the most recent fiscal year.

The following data is required in an unaudited note to financial statements or as a separate section of the financial statements following the notes:

1. The current replacement cost of inventories at each year-end for which a balance sheet is required to be filed.
2. Approximate cost of sales for the two most recent fiscal years as if it had been computed using replacement cost of goods and services at the time sales were made.
3. The estimated current cost of replacing with new assets the productive capacity on hand at each year-end for which a balance sheet is required, together with the depreciated cost of such productive capacity. For this purpose, assets held under financing leases, as they are defined in Rule 3-16(q), shall be included in the computation of productive capacity.
4. The approximate amount of straight-line depreciation, depletion, and amortization for the two most recent fiscal years based upon average replacement cost of productive capacity.
5. A description of methods used in determining the foregoing disclosures plus any other information which management believes is necessary or desirable to either understand the disclosures or the impact of inflation on the registrant's business.

Staff Accounting Bulletin No. 7 issued by the SEC clarified the disclosure by stating that the annual shareholders' report need only include a general description of the impact of changes (exclusive of any specific quantitative data) in the prices of specific goods and services. However, the shareholders' report should include a reference to the Form 10-K replacement cost data. See Section K herein for additional examples and Appendix I for a summary of replacement cost data.

In October, 1979, the SEC issued ASR 271 which rescinds the replacement cost disclosures for fiscal years ending on or after December 25, 1980. In addition, the replacement cost rule has been waived for companies who provide FASB Statement No. 33 current cost disclosures for fiscal years ending prior to that date.

OVERNITE TRANSPORTATION COMPANY
(Notes to Financial Statements)

Replacement cost (unaudited)

The trucking industry is labor intensive, dependent on petroleum products and requires extensive capital outlays for revenue producing equipment and terminal facilities. Inflationary pressures on these items have been extensive; however, the Company has been able to counteract these increases through more efficient operations and higher freight rates.

Replacing the Company's tangible assets with new assets of equivalent operating capabilities at current prices would require greater capital investment than that needed at the time these assets were acquired. Measuring the cumulative impact of inflation over the estimated useful lives of these assets is required by Rule 3-17 of Regulation S-X. The Company's Anual Report Form 10-K filed with Securities and Exchange Commission contains full disclosure of the required data. The following summarizes these disclosures:

	December 31, 1979		December 31, 1978	
	Replacement Cost	Historical Cost	Replacement Cost	Historical Cost
Inventories	$ 3,400,000	$ 3,400,000	$ 2,500,000	$ 2,500,000
Operating property (excluding land and construction in progress):				
Revenue equipment	$159,000,000	$106,000,000	$133,000,000	$ 92,000,000
Buildings and other equipment	87,000,000	48,000,000	77,000,000	44,000,000
	246,000,000	154,000,000	210,000,000	136,000,000
Less accumulated depreciation	121,000,000	66,000,000	99,000,000	57,000,000
	$125,000,000	$ 88,000,000	$111,000,000	$ 79,000,000
Annual depreciation	$ 19,000,00	$ 13,000,000	$ 16,000,000	$ 11,000,000

Replacement cost data for 63% (61% for 1978) of the tangible assets was determined using the "current pricing" technique, 22% (23% for 1978) using the trending technique and 15% (16% for 1978) using the comparison method. The Company cautions that the above amounts should not be construed to represent the current market values of the Company's tangible assets.

The Company maintains efficient terminal facilities and a modern fleet of revenue equipment through its replacement and maintenance programs. Under these programs it would not be necessary to replace a substantial portion of its tangible assets in any one year; however, if such were done, savings should be realized in maintenance and repair costs and improved utilization of revenue equipment. Forecasting such benefits is difficult and therefore not presented.

Leases

A transition period ending after 1980 provides for the retroactive adoption of FASB Statement No. 13, "Accounting for Leases,"; however, certain "as if" disclosures relating to pre-1977 leases are required. Examples of disclosures of leases in notes to financial statements in surveyed reports are included below

EXAMPLES Disclosure of lease commitments

PEPSICO, INC.
(Notes to Financial Statements)

Leases and Commitments

PepsiCo and its subsidiares have noncancellable commitments for rental of restaurant facilities, office space, plant and warehouse facilities, transportation equipment and other personal property under both capital and operating leases. Certain franchised restaurants are leased and subsequently subleased to franchisees. Lease commitments on capital and operating leases expire at various dates to 2021 and 2036, respectively. Following is an analysis of leased property under capital leases by major classes at December 29, 1979 and December 30, 1978.

	1979	1978
	(in thousands)	
Buildings	$178,253	$173,504
Machinery and equipment	8,539	7,260
	186,792	180,764
Less accumulated amortization	57,740	52,316
	$129,052	$128,448

Following is a schedule by year of future minimum lease commitments and sublease receivables under all noncancellable leases (in thousands):

	Commitments		Sublease Receivables	
	Capital	Operating	Direct Financing	Operating
1980	$ 26,244	$ 36,882	$ (3,442)	$ (4,122)
1981	25,513	28,517	(3,407)	(3,906)
1982	24,381	25,897	(3,347)	(3,746)
1983	23,216	22,450	(3,344)	(3,637)
1984	22,479	19,313	(3,351)	(3,505)
Later years	229,653	159,708	(52,023)	(26,854)
Total minimum lease commitments (receivables)	$351,486	$292,767	$(48,914)	$(45,770)

The present value of minimum lease payments for capital leases amounts to $170,840,000 after deducting $5,734,000 for estimated executory costs (taxes, maintenance and insurance) and $174,912,000 representing imputed interest. The present value of minimum sublease receivables amounts to $23,218,000 after deducting $25,696,000 of unearned income. Total rental expense for all operating leases for years ended December 29, 1979 and December 30, 1978 was $57,549,000 and $47,434,000, respectively. Total rental income from all operating subleases for years ended December 29, 1979 and December 30, 1978 was $5,953,000 and $5,255,000, respectively.

At December 29, 1979, PepsiCo and its subsidiaries were contingently liable under guarantees aggregating $55,000,000.

EXAMPLE Retroactive restatement in accordance with FASB 13

BANNER INDUSTRIES, INC.
(Notes to Financial Statements)

Leases:

In 1979, the Company retroactively implemented the provisions of FASB Statement No. 13 which required that leases meeting certain criteria (capital leases) be capitalized. The cumulative difference between the lease payments previously expensed and the depreciation and interest expense calculated for such capital leases was determined to be insignificant and accordingly retained earnings as of July 1, 1977, and the results of operations for 1978, have not been restated. Assets under capital leases of $4,923,000 (net of accumulated depreciation of $2,178,000) have been retroactively capitalized at June 30, 1978, and the related lease obligations are included in long-term debt in the consolidated balance sheet. The effect of the change on 1979 income was not material.

The following is an analysis of the assets under capital leases included in property, plant and equipment:

	1979	1978
Land	$ 228,860	$ 116,160
Buildings and improvements	9,521,535	7,862,026
Transportation equipment	3,772,058	1,158,336
Machinery and equipment	1,302,203	912,372
	$14,824,656	$10,048,894
Less--Accumulated depreciation	(3,456,322)	(2,671,974)
	$11,368,334	$ 7,376,920

Future minimum lease payments are as follows:

	Capital Leases	Operating Leases
1980	$ 1,975,000	$ 1,290,000
1981	1,877,000	1,092,000
1982	1,819,000	1,086,000
1983	1,801,000	892,000
1984	1,664,000	524,000
Thereafter	11,813,000	4,335,000
	$20,949,000	$ 9,219,000
Less--Amount representing interest	(8,328,000)	
Present value of capital lease payments	$12,621,000	

Rental expense on operating leases for the years ended June 30, 1979 and 1978 was $1,220,000 and $860,000, respectively.

Reporting for segments of a business enterprise

FASB Statement No. 14, "Financial Reporting for Segments of a Business Enterprise," effective for fiscal years beginning after December 15, 1976, applies to all publicly held "business enterprises" and requires those doing business in more than one industry to report revenue, income, and asset data about each significant industry segment. Companies also have to report on their foreign operations, export sales, and their dependence on one or more major customers. The impact of this Statement on surveyed companies was limited. Companies having significant noncarrier operations generally disclosed data about industry segments while other surveyed companies generally considered themselves to be in one industry. Examples of disclosures noted are provided below.

EXAMPLES Disclosure of business segment information

RYDER SYSTEM, INC.
(Notes to Financial Statements)

Segment Information

The company's principal operating groups are the Vehicle Leasing and Services, Automotive Carriers, Truckstops and Specialized Transportation divisions. The Vehicle Leasing and Services Division, operating under the name of Ryder Truck Rental, offers a variety of truck-related services including full-service truck leasing, prorammed maintenance service, commercial short-term truck rental and consumer truck rental. The Automotive Carrier Division is a major highway transporter of new cars and light trucks. The Truckstops Division is a network of full-service truckstops designed to provide a complete range of products and services to the trucker and other motorists. Products and services offered include fuel and repair services, restaurants, motels, parts and accessories, general stores, recreational facilities and a nationwide fuel and service billing and control system. The Specialized Transportation Division consists of a number of carriers providing diverse industries with contract carriage and consulting services, which include designing and monitoring distribution systems through its private fleet management program. This division also operates a common carrier parcel delivery service. During 1978, the company established the Insurance Division which includes Southern Underwriters, Inc., a general agent for certain property and casualty insurance companies, and The Federal Assurance Company, a property and casualty insurance company. Segment information for the Insurance Division is not significant and is included in the "Other" segment category.

The following table sets forth the company's revenue and net sales, operating profit and earnings (loss) before taxes during the period 1975-1979. The second table sets forth, for the year 1976-1979, the company's identifiable assets. The third table presents, for the years 1978 and 1979, depreciation expense and capital expenditures (in thousands):

	1979	1978	1977	1976	1975
Revenue and net sales:					
Vehicle Leasing and Services	$ 964,368	$ 711,643	$578,656	$480,869	$425,665
Automotive Carriers	222,700	218,095	183,539	122,804	84,692
Truckstops	248,642	184,130	148,670	121,981	108,068
Specialized Transportation	38,094	21,610	12,590	8,986	8,394
Other	6,436	5,792	4,714	4,119	6,888
	1,480,240	1,141,270	928,169	738,759	633,707
Intersegment revenue and net sales:					
Vehicle Leasing and Services	13,789	8,856	5,389	3,643	3,498
Automotive Carriers	126	-	-	-	-
Truckstops	11,628	8,329	8,253	7,937	8,483
Other	1	1	2	9	3,166
	25,544	17,186	13,644	11,589	15,147
Consolidated revenue and net sales	$1,454,696	$1,124,084	$914,525	$727,170	$618,560

	1979	1978	1977	1976	1975
Operating profit:					
Vehicle Leasing and Services	$ 152,876	$ 120,240	$ 88,769	$ 62,781	$ 49,790
Automotive Carriers	9,231	14,596	11,477	10,137	4,441
Truckstops	8,325	6,188	4,735	4,070	3,499
Specialized Transportation	4,604	3,382	1,737	1,218	1,279
Other	2,167	2,517	2,198	2,004	231
Total operating profit	177,203	146,923	108,916	80,210	59,240
Miscellaneous income	2,247	4,729	2,463	2,431	2,990
Interest expense, net	(63,088)	(43,974)	(33,827)	(29,801)	(39,299)
Unallocated corporate overhead expenses*	(9,657)	(7,886)	(1,925)	(4,165)	(2,927)
Earnings before taxes	$ 106,705	$ 99,792	$ 75,627	$ 48,675	$ 20,004
Earnings (loss) before taxes:					
Vehicle Leasing and Services	$ 91,573	82,958	58,903	37,166	18,227
Automotive Carriers	7,569	14,145	11,140	9,503	2,759
Truckstops	5,755	4,152	3,101	2,799	1,639
Specialized Transportation	4,642	3,461	1,732	1,248	1,372
Other**	(2,834)	(4,924)	751	(2,041)	(3,993)
Earnings before taxes	$ 106,705	$ 99,792	$ 75,627	$ 48,675	$ 20,004

* Due to organizational changes, changes in allocation methods and the inclusion of compensation expense of $2.0 million and $3.9 million for TRASOP in 1979 and 1978, respectively, these amounts are not comparable.

** Includes unallocated corporate overhead expenses.

	Identifiable Assets			
	1979	1978	1977	1976
Vehicle Leasing and Services	$1,305,203	$ 942,701	$742,939	$572,818
Automotive Carriers	96,069	85,843	74,650	51,820
Truckstops	91,284	70,923	60,887	51,253
Specialized Transportation	15,713	13,161	7,760	3,536
Other	15,233	14,425	14,249	10,851
Corporate	25,466	24,216	22,712	31,541
	1,548,968	1,151,269	923,197	721,819
Less eliminations	11,777	10,065	7,703	3,813
Consolidated totals	$1,537,191	$1,141,204	$915,494	$718,006

	Depreciation		Capital Expenditures	
	1979	1978	1979	1978
Vehicle Leasing and Services	$156,345	$125,017	$487,575	$360,774
Automotive Carriers	13,527	12,355	24,846	21,936
Truckstops	3,204	2,427	13,981	8,559
Specialized Transportation	1,723	1,338	991	318
Other	143	139	92	112
Corporate	557	423	5,263	2,979
	175,499	141,699	532,748	394,678
Less:				
Eliminations	1,477	1,261	-	-
Gains on disposal of revenue earning equipment	31,505	27,595	-	-
Consolidated totals	$142,517	$112,843	$532,748	$394,678

"Revenue and net sales" by segment includes intersegment revenue, which is substantially under the same terms as transactions with unaffiliated customers. These amounts are eliminated in consolidation. Revenue of $181 million and $178 million was derived from General Motors Corporation in 1979 and 1978, respectively.

"Operating profit" by segment is total revenue and net sales, including intersegment revenue, less all direct operating costs. "Operating profit" excludes miscellaneous income, interest and unallocated corporate overhead.

"Earnings (loss) before taxes" by segment is "Operating profit" adjusted for miscellaneous income and interest as it relates to each segment; the "Other" category includes unallocated corporate overhead.

"Identifiable Assets" are those assets that can be identified as being used in the company's various business segments. Assets in the "Corporate" category consist principally of cash, receivables, operating property and equipment and other non-current assets.

LIQUID TRANSPORTERS, INC.
(Notes to Financial Statements)

Information About the Company's Operations in Different Industries

The Company operates in two industries, freight transportation and equipment leasing. With respect to freight transportation, the Company is a common carrier of liquid and dry commodities, in bulk, in tank vehicles, operating under the authority of the Interstate Commerce Commission. The Company also is engaged in full-service leasing operations of tractor and trailers under cancellable operating lease agreements.

In computing operating income by industry segment, interest expense and income taxes have not been added or deducted. The following is a summary of information about the two industries, expressed in thousands of dollars:

	Freight Transportation	Equipment Leasing	Adjustments and Eliminations	Consolidated
1979				
Revenue from unaffiliated customers	$28,621	$1,793		$30,414
Intersegment revenues	39	12	$ (51)	
Total revenues	$28,660	$1,805	$ (51)	$30,414
Operating income	$ 2,152	$ 248	$ -	$ 2,400
Other deductions				192
Earnings before income taxes				$ 2,208
Identifiable assets at December 31, 1979	$15,526	$3,035	$(328)	$18,233
Depreciation	$ 1,975	$ 631		$ 2,606
Capital expenditures	$ 4,260	$1,014		$ 5,274
1978				
Revenues from unaffiliated customers	$23,452	$1,948		$25,400
Intersegment revenues	$ 43		$ (43)	
Total revenues	$23,495	$1,948	$ (43)	$25,400
Operating income	$ 1,614	$ 231	$ -	$ 1,845
Other deductions				160
Earnings before income taxes				$ 1,685
Identifiable assets at December 31, 1978	$13,407	$2,886	$(207)	$16,086
Depreciation	$ 1,708	$ 615		$ 2,323
Capital expenditures	$ 3,412	$ 602		$ 4,014

Transactions with one customer accounted for approximately $4,270,000 of freight transportation revenues in 1979. Outstanding accounts receivable from this customer at December 31, 1979 totaled $107,000.

LYNDEN TRANSPORT, INC.
(Notes to Financial Statements)

INDUSTRY SEGMENT INFORMATION:

The Company operates principally in two industries: (1) transportation and (2) construction, gravel and coal. Operations in transportation include: (a) motor and water freight transportation and air freight forwarding primarily between Washington and Alaska; (b) motor freight in Alberta, British Columbia and Northwest Territories, Canada, Washington and Alaska; (c) milk hauling in Washington, Oregon, Montana and Alaska. Operations in construction, gravel and coal include: (a) general contracting; (b) removal of gravel from Company-owned sites for general construction purposes or sale to unaffiliated customers and (c) purchase of coal tailings at dormant mine sites for sale to unaffiliated customers.

For the years ended December 31, 1979, and 1978, U.S. Postal Service revenues accounted for 12 percent and 14 percent, respectively, of transportation revenue.

Financial information by industry segment for the years ended December 31, 1979 and 1978 is summarized as follows:

	Operating revenues from unaffiliated customers		Operating profit	
	Year ended December 31,			
	1979	1978	1979	1978
	(in thousands)			
Transportation:				
United States	$36,853	$28,107	$3,258	$2,480
Canada	3,072	2,745	55	(139)
	39,925	30,852	3,313	2,341
Construction, gravel and coal	2,684	1,538	115	185
	$42,609	$32,390		
Corporate expense			(1,059)	(837)
Interest expense			(317)	(373)
Consolidated earnings before taxes			$2,052	$1,316

	Identifiable assets		Depreciation, depletion and amortization		Capital expenditures, net	
	1979	1978	1979	1978	1979	1978
			(in thousands)			
Transportation:						
United States	$12,075	$12,513	$1,738	$1,494	$2,540	$2,630
Canada	1,942	1,956	222	284	336	897
	14,017	14,469	$1,960	$1,778	$2,876	$3,527
Construction, gravel and coal	1,566	1,587	$ 249*	$ 246*	$1,120	$ 227
	15,583	16,056				
Corporate assets	2,930	2,033				
Consolidated	$18,513	$18,089				

*Including depletion expense of $23,000 in 1979 and $72,000 in 1978.

Transactions with affiliates and related parties

Statement on Auditing Standards (SAS) No. 6, "Related Party Transactions," requires financial statement disclosure regarding related party transactions, which are material individually or in the aggregate. Examples of such disclosures noted in the surveyed companies' reports are provided below.

EXAMPLES Related party transaction disclosures

REFRIGERATED TRANSPORT CO., INC.
(Notes to Financial Statements)

Related Party Transactions

During the years 1979 and 1978, the Company purchased revenue equipment, repair parts and services with a total cost of approximately $825,000 and $1,085,000, respectively, from Nalley Motor Trucks, Inc. (Nalley). One of the directors of the Company is also an officer, director and stockholder of Nalley.

During 1978, Mr. Richard Beauchamp, President of the Company, purchased from Southern Sunshine Properties, Inc. (then a subsidiary of the Company) an apartment located in Fort Lauderdale, Florida. The purchase price was $60,000 which was $33,000 more than the book value of the apartment; such purchase price was the approximate market value of similar property sold in the area. He also purchased from the Company for $4,000 an automobile which had a net book value of $2,000. He also rented to the Company for $46,000 several refrigerated trailers and for $9,000 an apartment. In addition, during 1979, Mr. Richard Beauchamp rented to the Company for $73,000 certain revenue equipment he owns and for $8,000 an apartment.

During 1978, Mr. Lamar Beauchamp, Chairman of the Board of Directors, purchased from Southern Sunshine

Properties, Inc., at its independently appraised value, a yacht for $58,000 which was $2,000 more than its book value in the Company's records.

During 1979, in connection with the borrowing of $10,000,000 under the terms of the 10% Note Purchase Agreement, the Company paid $125,000 to E.F. Hutton & Company, Inc. for services rendered in the negotiation of the terms of the Note Purchase Agreement. A member of the Board of Directors is an employee of E. F. Hutton & Company, Inc.

The Company has begun a program to assist selected drivers in becoming independent contractors by encouraging them to purchase or lease equipment. In certain instances, subsequent to December 30, 1979, the Company has entered into agreements with Nallease, Inc. which provide, subject to compliance with applicable laws and subject to a number of other conditions, that the Company shall repurchase or lease the equipment from Nallease, Inc. in the event of a default by such an independent contractor under the terms of his original lease with Nallease, Inc. One of the directors of the Company is also an officer, director and stockholder of Nallease, Inc.

WILSON FREIGHT COMPANY
(Notes to Financial Statements)

RELATED PARTY TRANSACTIONS

The Company and certain other entities constitute related parties by reason of common ownership and/or control by members of management, directors, and their immediate families. During 1979 and 1978, the Company leased certain properties from related parties, and these transactions will continue (see Note G). Sales of assets to related parties resulted in gains on disposal of $153,465 and $267,232 in 1979 and 1978, respectively.

In July, 1979, the Company borrowed $1,000,000 from related parties. The note is collateralized by a first mortgage on a terminal with a net book value of approximately $898,000. The note bears interest at 11% annually and is due July 1, 1984.

Subsequent to December 29, 1979, the Company borrowed $250,000 from certain officers and directors in the form of 12% promissory notes. Interest is payable annually beginning January 2, 1982 and the notes mature January 2, 1985.

NEW PENN MOTOR EXPRESS
(Notes to Financial Statements)

TRANSACTIONS WITH AFFILIATES

Accounting and legal fees totaling approximately $83,050 and $67,750 in 1979 and 1978 respectively, were paid to firms in which certain directors have financial interests.

The Company purchased equipment and services during 1978 amounting to approximately $1,351,000, from a company which is controlled by a former Director of New Penn. The purchases were based on competitive bids and the Company has been a major supplier of equipment and services to New Penn for over twnety years prior to the period (April 1975 to April 1978) he was a director.

Acquisitions

EXAMPLES Disclosure of acquisitions

IU INTERNATIONAL CORPORATION
(Notes to Financial Statements)

Acquisitions and Dispositions

On August 14, 1978, the Corporation acquired the 46% minority ownership in C. Brewer and Company, Limited (Brewer) in exchange for 2,136,638 shares of the Corporation's $1.36 convertible preferred stock valued at $16.75 per share (see Note 16: Commitments and Contingencies). The acquisition was accounted for as a purchase. The excess of the value assigned to the net assets acquired over the value of the stock issued has been allocated proportionately to noncurrent assets. The results of operations of Brewer are included in consolidated net earnings based upon the 100% ownership from the merger date. If this acquisition had occurred on January 1, 1978, the Corporation's earnings and earnings per share from continuing operations would not have been significantly different than reported amounts.

In addition, during 1979, and 1978, the Corporation acquired several smaller companies in purchase transactions for notes and cash amounting to an aggregate consideration of $8,437,000 and $5,002,000, respectively. The operations of these companies are not significant.

During the two years ended December 31, 1979, in addition to the distribution of the ocean shipping subsidiary, the Corporation disposed of certain water utility properties, a dental supply company, three industrial distribution companies, foreign freight-forwarding companies, a potato products company, and certain other small companies. The contribution to revenues and net earnings, excluding gains and losses on disposition, of such companies for the years ended December 31, 1979 and 1978 was as follows:

In thousands	1979	1978
Revenues	$101,516	$242,233
Net earnings (loss)	903	(9,964)

THE BEKINS COMPANY
(Notes to Financial Statements)

ACQUISITIONS

During 1979, the Company purchased certain portions of ICC operating rights from Sternberger Motor Corporation for cash of $150,000 and notes amounting to $820,000. These operating rights relate to transporting new furniture and fixtures from the manufac turer to retail outlets in 23 eastern states. During 1979, the Company also acquired RBG Inc., a furniture rental and manufacturing business for cash of $719,000 and future payments of approximately $3,311,000 to $3,967,000 contingent upon future earnings. These transactions have been accounted for as purchases and accordingly the acquired companies' results of operations from the dates of acquisition have been included in the consolidated financial statements. Goodwill from these transactions was recorded in the aggregate amount of $1,880,025 and is being amortized on the straight-line method over 40 years.

U.S. TRUCK LINES, INC. OF DELAWARE
(Notes to Financial Statements)

Acquisition Agreements:

On November 20, 1979, the Interstate Commerce Commission approved the Company's application to purchase for cash all the outstanding common stock of Mercury Freight Lines, Inc. for approximately $9,025,000. The approval, however, contained certain conditions with respect to duplicate operating authority which were unacceptable to the Company and accordingly, an application for reconsideration will be filed with the I.C.C. Resolution of the matter is pending based on the final decision of the Interstate Commerce Commission.

The application of Be-Mac Transport Company, Inc. for the purchase of operating authority between Tulsa, Oklahoma and Dallas, Texas for $2,250,000 was approved by the I.C.C. during 1979 and accordingly, has been reflected in the accompanying consolidated financial statements.

Operation of company under temporary authority

EXAMPLES Disclosures of temporary authority operation of a company

NEW PENN MOTOR EXPRESS, INC.
(Notes to Financial Statements)

OPERATING AUTHORITIES

During 1978, the Company acquired the operating authorities of two companies at a combined cost of $218,913. One of the authorities was operated on a temporary basis since June 1977 and was carried on the balance sheet at December 31, 1977 as a deposit. Due to the Company's inability to tack at certain locations, the purchase price of the authority was reduced to $50,000 and this amount was returned to the Company during 1978. In September of 1979, the I.C.C. approved the acquisition of the operating rights of another company at a cost of $20,468.

On February 21, 1980 the Company entered into an agreement with Reading Transportation Company (Reading) for the acquisition of Reading's operating authority with Pennsylvania Public Utility Commission (P.U.C.) at a total price of $850,000. The acquisition is subject to, among other things, the approval of the P.U.C. and the company has filed an application for temporary use of the operating authority until such time that the permanent application is granted. However, in all events, if the permanent application is not granted by September 30, 1980, the Company may at its option terminate the agreement.

Discontinued operations

The reports that included reference to discontinued operations followed the requirements of APB Opinion No. 30, "Reporting the Results of Operations." Income or loss from discontinued operations was shown in a section on the income statement below earnings from continuing operations with a reference to the footnotes to the financial statements.

EXAMPLES Disclosures related to discontinued operations

BUTLFR INTERNATIONAL, INC.
(Notes to Financial Statements)

DISCONTINUED OPERATIONS

In connection with a 1972 sale of certain assets of a discontinued aircraft manufacturing operation, the Company received a $1,939,000 promissory note which was substantially discounted to the nominal value of $50,000. During 1978, certain circumstances justified revaluation of the note to its full remaining amount of $704,000. The revaluation of $654,000 has been reported, net of related income taxes of $314,000, as income from discontinued operations in 1978.

ALLIED VAN LINES
(Notes to Financial Statements)

Disposal/Closedown Provision

On June 27, 1979, the Company's Board of Directors approved a resolution calling for the divestiture of

Blodgett Furniture Service, Inc., a wholly-owned subsidiary of Transportation Equity Corporation, which is in turn a wholly-owned subsidiary of the Company. After efforts to identify a buyer were unsuccessful, management ceased the operations of the Blodgett subsidiary on November 6, 1979, and all assets are currently being liquidated. Included in income before nonrecurring item, income taxes and extraordinary credit are the operating losses of Blodgett from January 1, 1979, through June 30, 1979 totaling $370,000.

Stock options

Accounting Research Bulletin No. 43, Chapter 13, and APB Opinion No. 25, "Accounting for Stock Issued to Employees," require disclosures about the status of any stock option plans at the balance-sheet date and disclosure of any activity during the period.

EXAMPLES Stock option disclosure

PRESTON TRUCKING COMPANY, INC.
(Notes to Financial Statements)

Stock Options

40,000 shares of common stock are reserved for issuance under a qualified stock option plan approved in 1975. During 1979, options were granted for 6,200 shares at $16.25 per share and as of December 31, 1979, options for a total of 40,000 shares are outstanding at prices of $16.25 and $21.75 per share. The options are exercisable at the date of grant at the market value at that date and expire at various dates through May 24, 1984.

TRANSCON LINES
(Notes to Financial Statements)

Stock Option Plans

Options to purchase common stock under the Company's non-qualified stock option plans have been granted to officers and other key employees at the fair market value on the dates of grant. Non-qualified options are exercisable over periods varying from one to ten years. Shares optioned under the qualified plan, which expire on December 31, 1978, are exercisable during the period commencing eighteen months and ending five years from dates of grant.

A summary of stock option activity for 1979 and 1978 is as follows:

	1979	1978
Outstanding, January 1	208,610	94,997
Granted	79,750	134,589
Cancelled or expired	(43,679)	(8,263)
Exercised	(4,397)	(12,713)
Outstanding, December 31 ($7.00 to $13.25 per share at December 31, 1979)	240,284	208,610
Exercisable, December 31	49,565	34,421

In accordance with the plans, 72,986 shares remain available at December 31, 1979 for future option grants under the non-qualified plan.

RYDER SYSTEMS, INC.
(Notes to Financial Statements)

Employee Incentive Plans

The company has four active stock incentive plans for officers and employees to acquire common shares of the company.

The Employee Stock Purchase Plan provides for periodic subscriptions to purchase shares of the company's common stock at 85% of market value on the date of offering or the last day of the purchase period, whichever is less.

Activity in the Employee Stock Purchase Plan for the two years ended December 31, 1979 is summarized below (adjusted for stock dividends, where applicable):

	Shares	Average Purchase Price Per Share	Aggregate Purchase Price (in thousands)
Subscriptions outstanding at December 31, 1977	216,319	$11.45	$2,476
Subscriptions granted	324,118	19.82	6,424
Stock dividend--1978	4,498	-	(13)
Shares issued	(204,718)	11.23	(2,298)
Subscriptions cancelled	(20,791)	12.46	(259)
Subscriptions outstanding at December 31, 1978	319,426	19.82	6,330
Shares issued	(8,492)	19.31	(164)
Stock dividend--1979	6,940	-	(38)
Subscriptions cancelled	(49,166)	19.49	(958)
Subscriptions outstanding at December 31, 1979	268,708	$19.24	$5,170
Available for future offering at:			
December 31, 1978	213,248		
December 31, 1979	254,959		

Under the Profit Incentive Stock Plan options are granted to certain employees to purchase shares at prices not less than 85% of the fair market value at the date of grant. Such options are exercisable cumulatively 25% each yar.

Activity in the Profit Incentive Stock Plan for the two years ended December 31, 1979 is summarized below (adjusted for stock dividends, where applicable):

	Shares	Average Option Price Per Share	Aggregate Option Price (in thousands)
Options outstanding at December 31, 1977	74,802	$ 9.76	$ 730
Options granted	41,099	15.84	651
Stock dividend--1978	1,598	-	(2)
Options exercised	(31,731)	7.97	(253)
Options cancelled	(2,323)	13.78	(32)
Options outstanding at December 31, 1978	83,445	13.11	1,094
Options granted	41,072	20.01	822
Stock dividend--1979	1,948	-	(2)
Options exercised	(17,391)	9.66	(168)
Options cancelled	(4,359)	13.76	(60)
Options outstanding at December 31, 1979	104,715	$16.10	$1,686
Available for future offering at:			
December 31, 1978	227,881		
December 31, 1979	191,329		

The Stock Option Plan provides for the granting of options to key employees to purchase shares at a price equal to the fair market value at the date of grant. Such options are for terms of up to 10 years and normally provide for cumulative exercise of 25% each year from date of grant.

Activity in the Stock Option Plan for the two years ended December 31, 1979 is summarized below (adjusted for stock dividends, where applicable):

	Shares	Average Option Price Per Share	Aggregate Option Price (in thousands)
Options outstanding at December 31, 1977	512,904	$ 7.16	$3,673
Options granted	316,198	19.38	6,129
Stock dividend--1978	13,977	-	(1)
Options exercised	(165,379)	6.46	(1,069)
Options cancelled	(28,126)	11.66	(328)
Options outstanding at December 31, 1978	649,574	12.94	8,404
Options granted	57,920	22.67	1,313
Stock dividend--1979	16,202	-	(2)
Options exercised	(152,216)	6.79	(1,033)
Options cancelled	(32,455)	20.61	(669)
Options outstanding at December 31, 1979	539,025	$14.87	$8,013
Available for future offering at:			
December 31, 1978	453,985		
December 31, 1979	423,747		

During 1978, the Board of Directors approved a Tax Reduction Act Stock Ownership Plan (TRASOP), retroactive to January 1, 1977. Under the plan, the company may claim additional investment tax credits each year, provided that such amount is contributed to a trust for the benefit of eligible employees. The trust can invest only in Ryder stock. The adoption of the TRASOP resulted in charges to operating expenses of $2.0 million in 1979 and $3.9 million in 1978. The 1978 charge included $1.8 million relating to 1977, the plan's initial year of operation. Income tax expense was reduced by corresponding amounts to reflect the additional investment tax credit generated by the plan; therefore, the TRASOP has no effect on net earnings. At December 31, 1979, the trust held 194,342 common shares of Ryder stock for the benefit of 5,257 participating employees.

The company and its subsidiries have incentive compensation plans that provide cash awards to certain designated employees. Incentive compensation expense under such plans was $9.1 million and $7.9 million for 1979 and 1978, respectively. Under the terms of the plans, the amounts provided are based on levels of profitability and the individual awards are discretionary based on performance.

Subsequent events

SAS No. 1, Section 560.06 requires the disclosure of any events subsequent to the balance-sheet date which would make the financial statements misleading if not disclosed. Such events would include, but are not limited to, the following: sale of a bond or capital stock issue, acquisition of a business, litigation arising against the company, catastrophe losses and losses on receivables resulting from conditions arising after the balance-sheet date. Examples of subsequent events disclosed by the surveyed companies in their financial statements are shown below.

EXAMPLES Disclosures of subsequent events

RETAIL MERCHANT'S INDUSTRIES, INC.
(Notes to Financial Statements)

SUBSEQUENT EVENT

At its February, 1980 meeting, the board of directors voted to recommend the Company change its name to Buckhorn Inc. This change requires approval from our shareholders at their May 1, 1980 meeting.

SPECTOR INDUSTRIES, INC.
(Notes to Financial Statements)

TeleCom Merger Proposal

On February 19, 1980 the Company reached an agreement in principle with TeleCom Corporation ("TeleCom") Houston, Texas, for the merger of the Company into Red Ball Motor Freight, Inc. ("Red Ball"), a motor common carrier of general commodities and a wholly-owned subsidiary of TeleCom with general offices in Dallas, Texas. Under the proposed terms of the transaction, the shareholders of the Company would receive, on a tax-free basis, one share of TeleCom common stock for each outstanding share of the common stock of the Company.

The proposed transaction is subject to negotiation of a definitive merger agreement, approval by the shareholders of TeleCom and the Company, approval of the Interstate Commerce Commission and other appropriate regulatory bodies, and other conditions.

Regulatory matters

As required by the ICC, motor carriers must disclose material differences in net income that result from using GAAP rather than regulations promulgated by the ICC.

EXAMPLES Regulatory matters

COASTAL INDUSTRIES, INC.
(Notes to Financial Statements)

Regulatory Matters

The Corporation is a holding company whose principle subsidiary is a motor common carrier of liquid and dry bulk commodities in tank vehicles and, as such, operates solely in the transportation industry.

The parent company and certain of its subsidiaries are subject to the accounting regulations of the Interstate Commerce Commission. If the accompanying financial statements had been prepared in accordance with Interstate Commerce Commission regulations, net income would have been greater than herein reported by $60,175 in 1979 and less than herein reported by $80,488 in 1978. Differences result primarily from accounting for equipment repairs and amortization of operating rights.

ROADWAY EXPRESS, INC.
(Notes to Financial Statements)

REGULATORY MATTERS

The company is a motor common carrier, subject to regulation by the Interstate Commerce Commission, and operates exclusively within the transportation industry.

Net income under Interstate Commerce Commission accounting regulations would have been greater by approximately $2,440,000 in 1979 and $3,072,000 in 1978 than herein reported. Differences are primarily in accounting for revenue, future equipment repairs and operating rights.

Pensions and related disclosures

In compliance with APB Opinion No. 8, "Accounting for the Cost of Pension Plans," the financial statements should disclose (1) the existence of such plan, (2) the company's accounting and funding policies, (3) the provision for costs for the period, (4) amount, if any, of the excess of vested benefits over the total net pension fund assets, and (5) the nature and effect of significant matters affecting comparability for all periods presented.

EXAMPLES Pension disclosure

TELECOM CORPORATION
(Notes to Financial Statements)

Pension and Incentive Plans

Two subsidiaries have noncontributory pension plans covering substantially all of their nonunion employees. Pension costs are computed on the basis of accepted actuarial methods and include amounts equal to normal cost of the plans and amortization of past service cost over a forty-year period. The Company also has noncontributory pension plans for employees of the parent company and certain subsidiaries who meet eligibility requirements specified therein as to age and length of service. These plans are funded currently based on accepted actuarial methods. Amounts so determined for all pension plans are generally funded to the extent that federal income tax deductions are allowable. There is no unfunded liability for vested benefits in connection with any of the Company's pension plans. Additionally, one of the aforementioned subsidiaries makes annual contributions to union-sponsored pension plans for substantially all union employees. Certain of the Company's subsidiaries have incentive compensation plans which provide for payments to the participants based on the pre-tax income of such subsidiaries.

OVERNITE TRANSPORTATION COMPANY
(Notes to Financial Statements)

Retirement plan

The retirement plan contributions were $4,820,000 and $3,824,000 for 1979 and 1978, respectively. Unfunded prior service cost amounted to approximately $8,570,000 at December 31, 1979. As of that date, the market value of plan assets approximated the actuarially computed value of vested accrued benefits.

MCCLEAN TRUCKING COMPANY
(Notes to Financial Statements)

Pension Plans:

Noncontributory pension plans provide pension benefits for employees not receiving benefits under labor union contracts. Total pension expense under the plans was $2,962,959 in 1979 and $2,441,136 in 1978. According to actuarial estimates, the unfunded liability for prior service costs under the plans at their most recent anniversary dates was approximately $19,547,000. The total assets of the plans exceeded the computed present value of vested benefits.

The Company contributed $15,311,859 and $12,852,018 in 1979 and 1978, respectivley, to pension plans for employees subject to labor union contracts, and such amounts were charged to operations. These amounts were determined in accordance with the contracts. The plans are not administered by the Company.

Reporting of quarterly results

Many SEC-registered companies are required to include a footnote in their annual report summarizing quarterly operating results for the last two years. A footnote to the annual financial statements must include, among other things, summarized quarterly revenue, gross profit, income, and income per share data for the last two years. This footnote may be marked "unaudited" but certain review procedures must be performed by the company's independent auditors. Companies affected by the annual footnote requirement are generally those listed on national stock exchanges and actively traded OTC companies. Disclosure is not required if total assets at the latest fiscal year end were less than $200 million and income before extraordinary items for at least one of the last three years was less than $250,000.

EXAMPLES Disclosure of quarterly financial data

U.S. TRUCK LINES, INC. OF DELAWARE
(Notes to Financial Statements)

Quarterly Financial Data (Unaudited):

A summary of selected quarterly financial data (unaudited) for the years ended December 31, 1979 and 1978 is as follows:

	Quarters Ended			
	March 31	June 30	September 30	December 31
1979				
Operating revenues	$32,738,994	$32,293,617	$32,768,987	$32,893,270
Operating income	4,201,161	4,658,514	3,734,092	4,014,030
Net income	2,777,706	3,122,635	2,542,039	2,765,086
Net income per share of common stock	$.61	$.70	$.57	$.62
1978				
Operating revenues	$28,248,055	$31,163,837	$30,359,456	$31,539,215
Operating income	2,138,800	4,743,526	4,317,696	4,812,580
Net income	1,485,004	3,045,670	2,640,673	3,058,447
Net income per share of common stock	$.33	$.68	$.58	$.69

RLC CORP.
(Notes to Financial Statements)

Quarterly Results (Unaudited)

	December 31	March 31	June 30	September 30
1979				
Revenues	$72,519,000	$79,060,000	$84,150,000	$86,288,000
Earnings before taxes on income	$ 9,187,000	$ 9,192,000	$12,320,000	$10,638,000
Net earnings	$ 5,788,000	$ 5,791,000	$ 8,068,000	$ 7,894,000
Earnings per share*	$.48	$.48	$.67	$.65
1978				
From Continuing Operations				
Revenues	$55,539,000	$59,462,000	$66,122,000	$69,019,000
Earnings before taxes on income	$ 6,702,000	$ 6,503,000	$ 9,243,000	$ 9,737,000
Net earnings	$ 4,055,000	$ 3,923,000	$ 6,511,000	$ 6,347,000
Net earnings of discontinued operations	$ 177,000	$ 135,000	$ 150,000	$ 900,000
Net earnings	$ 4,232,000	$ 4,058,000	$ 6,661,000	$ 7,247,000
Earnings per share*				
Primary				
Continuing operations	$.37	$.35	$.59	$.52
Discontinued operations	.01	.02	.01	.08
	$.38	$.37	$.60	$.60
Fully diluted				
Continuing operations	$.33	$.34	$.51	$.51
Discontinued operations	.01	.01	.02	.07
	$.34	$.35	$.53	$.58

*Restated for 3 for 2 common stock split issued on June 1, 1979.

THE BEKINS COMPANY
(Notes to Financial Statements)

Quarterly Results of Operations (Unaudited)

The following is a tabulation of the unaudited quarterly results of operations for the years ended December 31, 1979 and 1978:

1979	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(Thousands of dollars, except share data)			
Revenue	$57,203	$65,593	$80,877	$71,330
Gross profit	13,407	15,837	19,876	16,675
Net income (loss)	(730)	1,394	1,773	(383)
Net income (loss) per common share	(.19)	.37	.46	(.10)
Average shares outstanding	3,814,000	3,816,000	3,818,000	3,820,000

1978	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(Thousands of dollars, except share data)			
Revenue	$50,228	$61,752	$71,656	$60,655
Gross profit	11,907	14,941	16,715	13,597
Net income (loss)	102	347	1,122	(1,476)
Net income (loss) per common share	.03	.09	.29	(.39)
Average shares outstanding	3,813,000	3,813,000	3,813,000	3,814,000

The Company's business is highly seasonal, consistent with household moves which peak during summer months. The net loss for the fourth quarter 1978 includes approximately $600,000 (net of tax) of adjustments to estimates of certain accrued expenses and bad debts. Additionally, income taxes in the fourth quarter of 1978, reflect cumulative credit adjustments of $350,000 based on actual rates for the year. The net income for the second quarter 1979 includes a gain of $561,000 (net of tax) on the sale of real estate.

Litigation

EXAMPLES Disclosure of litigation

ARKANSAS BEST CORPORATION
(Notes to Financial Statements)

Litigation

In 1973, the Company and ten individuals who were officers, past officers or directors of the National Bank of Commerce of Dallas (NBCD) were named as defendants in a complaint filed in the U.S. District Court at Dallas in an alleged derivative and class action claiming certain violations of the Securities Exchange Act of 1934, as amended. Two of the individual director-defendants are the Chairman and President of the Company, who under the Company's bylaws may seek indemnification from the Company in the event liability is imposed upon them. The complaint was amended in 1974 to allege damages of $13,071,905 for loan losses charged off by NBCD in 1973 and other unspecified damages. This allegation was dismissed in 1978 as to the Company, but counsel for plaintiff has filed another amended complaint without the court's permission which would reinstate and substantially expand the dismissed allegation. A motion has been made to dismiss the amended complaint and the class has now been defined to include 552 persons who held stock during the period in question. On October 9, 1979, upon motion of the plaintiffs and NBCD and after notice to the class, the suit was dismissed against seven of the individual director-defendants other than the Chairman and President of the Company. The remaining parties have reached an agreement in principle to settle all claims. While the final agreement will be subject to approval by the court, there is no reason to believe that the settlement will not be approved. The settlement would not have a material effect on the Company's financial statements.

ABF was named in 1975 as a defendant with the International Brotherhood of Teamsters (IBT) and various Teamsters conferences in a complaint filed in the U.S. District Court at Little Rock by certain ABF road drivers alleging improper representation by IBT, and collusion between ABF and IBT to change operations as a punitive action against the plaintiffs. The court ruled that there was no evidence of collusion or conspiracy between ABF and the other defendants, but found the other defendants had violated their duties of fair representation. Despite the court's ruling of no collusion, ABF as well as the Central Conference of Teamsters and the Southern Conference of Teamsters were held jointly and severally liable for damages. The court denied motions by ABF that it is not liable to the plaintiffs or in the alternative that damages should be apportioned between ABF and the other defendants. A judgment was entered against all defendants in favor of the plaintiff drivers for a total of $258,868; no punitive or continuing damages were awarded. Counsel for ABF believes that the judge's findings and conclusions are contrary to the preponderance of the evidence. Arguments on the appeal to the U.S. Court of Appeals for the Eighth Circuit were heard on February 13, 1980.

In November 1978, suit was filed in the Superior Court of Los Angeles County, California, against Navajo and one of its customers by certain owner-operators formerly employed by Navajo, as a class action alleging a conspiracy on the part of Navajo and the customer to charge less than the proper rates for certain transcontinental shipments, thereby under-compensating the owner-operators (who are paid based upon a percentage of revenues). There has been no class certification. Damages of $2,000,000, which includes punitive damages, plus attorney's fees and costs are sought by plaintiffs. As successor to Navajo, ABF intends to exert every effort to prevail and has answered denying liability on all counts. ABF has also cross-claimed against the customer alleging that if liability does exist it is the customer's liability and, alternatively, that if the customer was undercharged then the customer is liable to ABF in the amount of such undercharge. Counsel has advised that it foresees no liability for punitive damages. Because the suit is in a preliminary stage, the outcome of this action cannot be predicted.

In March 1979, suit was filed in the U.S. District Court at San Francisco by Ringsby Truck Lines, Inc. and Ringsby Pacific, Ltd. (collectively referred to hereafter as Ringsby) against Trucking Management, Inc. (TMI), the bargaining agent for a large number of motor carriers, Trucking Employers, Inc. (the predecessor of TMI), IBT and 17 motor carriers (including ABF and Navajo) alleging violation of antitrust laws, including conspiracy to drive Ringsby out of business because it did not join in the 1976 National Master Freight Agreement. Defendant's motions for summary judgment have been denied, and no specific damages have been claimed at this point. Plaintiff has completed its discovery. The defendants were under court order not to commence discovery until December 1979 and have now instituted discovery proceedings. Since the suit is in an early stage, counsel has expressed no opinion on the merits. ABF intends to defend the action vigorously and believes the allegations are groundless.

After consultation with legal counsel, the Company has concluded that resolution of the foregoing lawsuits will not have a material effect on the Company's financial statements. Various other legal actions arising in the normal course of business are pending. None of these other legal actions is expected to have a significant effect on the Company's operating results or financial condition.

MURPHY MOTOR FREIGHT LINES, INC.
(Notes to Financial Statements)

Contingent Liabilities

The Company is a defendant in various matters of litigation arising out of operations in the ordinary course of business. The Company believes that the ultimate disposition of these matters will not materially affect the financial position or operations of the Company.

IU INTERNATIONAL CORPORATION
(Notes to Financial Statements)

Commitments and Contingencies

Several actions have been commenced alleging violations of law in connection with the merger, effective August 14, 1978, between C. Brewer and Company, Limited and a wholly-owned Hawaii subsidiary of the Corporation. In one of these actions, the First Circuit Court of Hawaii on January 9, 1979 entered an order setting aside the merger. This decision has been appealed to the Supreme Court of Hawaii, and implementation of the lower court's decision has been stayed pending the determination thereof. In addition, holders of 248,726 shares of Brewer stock have brought actions under Hawaii's dissenters' rights statute to have the court determine the fair market value of their shares. While the final outcome of these matters is not determinable at this time, management believes that the ultimate resolution will not materially affect the financial position of the Corporation.

Commitments

EXAMPLES Disclosure of commitments

TRANSCON LINES, INC.
(Notes to Financial Statements)

Contingencies and Commitments

The Company is also committed for the construction, purchase or alteration of facilities and equipment aggregating approximately $1,800,000 at December 31, 1979.

NEW PENN MOTOR EXPRESS, INC.
(Notes to Financial Statements)

Commitments

The Company has revenue equipment on order at December 31, 1979 totaling approximately $725,000 and is in the process of constructing a new terminal and renovating another which have been contracted at a total estimated cost of $1,350,000, of which approximately $1,261,000 had been incurred at year end. See Long-term debt note.

The Company has consulting and noncompetition agreements aggregating $706,667 with certain individuals which expire at various dates through 1989.

BRIGGS TRANSPORTATION CO.
(Notes to Financial Statements)

At December 31, 1979, the Company had three outstanding commitments totaling $465,000 for the purchase of operating authority which are subject to the approval of the Interstate Commerce Commission. One application for $150,000 had been approved by the Commission and the purchase was completed in January 1980.

Interest capitalization

EXAMPLES Interest capitalization disclosures

RYDER SYSTEM, INC.
(Accounting Policies Footnote)

Capitalization of Interest

The company capitalizes interest on the capital employed in the acquisition and construction of new operating facilities.

(Long-Term Debt Footnote)

The amounts of interest capitalized were $721,000 in 1979 and $410,000 in 1978.

ARKANSAS BEST CORPORATION
(Accounting Policies Footnote)

Property, Plant and Equipment:

Beginning in 1979, the Company adopted the policy of capitalizing interest as a component of the cost of acquiring certain assets, in accordance with the provisions of Financial Accounting Standards Board Statement No. 34 (FASB 34).

(Long-Term Debt Footnote)

During 1979, interest costs incurred totaled $9,622,447, of which $222,454 was capitalized as part of the acquisition cost of certain items of property, plant and equipment.

SECTION J

Accountants' Reports

A company's audited financial statements must be accompanied by an "accountants' report" setting forth the general scope of the examination and the accountants' opinion as to whether the financial statements are presented in accordance with generally accepted accounting principles consistently applied in relation to the preceding reporting period. Financial statements of regulated companies are not exempt from this requirement. Section 544 of SAS No. 1 states, in part, that:

> ". . . The basic postulates and broad principles of accounting comprehended in the term generally accepted accounting principles which pertain to business enterprises in general apply also to companies whose accounting practices are prescribed by governmental regulatory authorities or commissions. . . . When financial statements of a regulated company are prepared in accordance with a basis of accounting prescribed by its supervisory agency or the financial reporting provisions of another agency, the independent auditor may also be requested to report on their fair presentation in conformity with such prescribed basis of accounting in presentations other than filings with the company's regulatory agency. In those circumstances, except when such reporting is recognized as appropriate by an AICPA accounting or audit guide or auditing interpretation, the auditor should use the standard form of report (see section 509.07, Reports on Audited Financial Statements), modified as appropriate (see section 509.15-.17) because of the departures from generally accepted accounting principles, and then, in an additional paragraph to the report, express an opinion on whether the financial statements are presented in conformity with the prescribed basis of accounting."

The accountants' report covered 1979 and 1978 for all companies surveyed. Thirty-nine of the companies received "unqualified opinions" from their accountants; two opinions were qualified subject to the ultimate disposition of an existing contingency; and two opinions were qualified as to consistency because of changes in accounting methods. Table 31 indicates the type of opinions issued by the accountants of the surveyed companies.

TABLE 31 ACCOUNTANTS' REPORTS

Types of Opinions	No. of Surveyed Companies
Unqualified opinions	39
Opinions qualified for:	
Subject to the ultimate resolution of an existing contingency	2*
Change in the methods of accounting for leases and accounting for tires on revenue equipment	1
Change in the method of accounting for investment tax credits	1
	43

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*One of these reports also referred to a restatement for a change in accounting principle.

EXAMPLE--Unqualified opinion

ROADWAY EXPRESS, INC.
(Report of Independent Auditors)

To the Board of Directors
Roadway Express, Inc.
Akron, Ohio

We have examined the consolidated balance sheets of Roadway Express, Inc., and subsidiaries as of December 31, 1979 and 1978, and the related consolidated statements of income and earnings reinvested in the business and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Roadway Express, Inc. and subsidiaries at December 31, 1979 and 1978, and the consolidated results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

EXAMPLE--Subject to outcome of uncertainty and change in accounting principle

WILSON FREIGHT COMPANY
(Report of Independent Auditors)

Board of Directors
Wilson Freight Company
Cincinnati, Ohio

We have examined the consolidated balance sheets of Wilson Freight Company and subsidiaries as of December 29, 1979 and December 30, 1978, and the related statements of consolidated operations and retained earnings and changes in financial position for the fiscal years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The Company continued to incur operating losses in 1979 and at December 29, 1979, has a working capital deficiency. As more fully described in Note C, the Company is in default of covenants of certain of its loan agreements. As a result the lenders are permitted to accelerate the maturity of the related debt and, accordingly, such debt has been classified as a current liability in the accompanying 1979 consolidated balance sheet. The Company is seeking to arrange necessary interim and long-term financing, but there is no assurance that such financing can be obtained. The effect of the resolution of this uncertainty on the realization of assets and settlement of liabilities in the normal course of business is not presently determinable.

In our opinion, subject to the effects of such adjustments of the 1979 financial statements, if any, as might have been required had the outcome of the uncertainty referred to in the preceding paragraph been known, the financial statements referred to above present fairly the consolidated financial position of Wilson Freight Company and subsidiaries at December 29, 1979 and December 30, 1978, and the consolidated results of their operations and changes in their financial position for the fiscal years then ended, in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the charge, with which we concur, in consolidation policy regarding Strickland Transportation Company as described in Note B.

WILSON FREIGHT COMPANY
(Notes to Financial Statements)

Note B--Acquisition

On February 3, 1978, the Company entered into an agreement to purchase all of the outstanding stock of another freight company, Strickland Transportation Company, Inc. and was granted temporary authority by the Interstate Commerce Commission (ICC) to manage and control Strickland effective March 1, 1978. On December 11, 1979, the ICC granted the Company permanent authority to manage and control Strickland. This transaction was executed on December 27, 1979. Subsequent to year end, Strickland was merged into the Company.

The 1978 financial statements have been restated to include in the consolidation the accounts of Strickland since March 1, 1978, the effective date of acquisition. This restatement had no effect on the net loss as previously reported, since Wilson's equity in Strickland operations during the period of temporary authority was recorded under the equity method of accounting.

Note C--Financing

The Company sustained an operating loss in 1979, and is in violation of various covenants of three loan agreements. Although the lenders have the right to demand immediate payment of the borrowings, they have not exercised this right. The amounts payable under these agreements have been classified in the consolidated balance sheet at December 29, 1979 as current liabilities under the caption debt in default and are detailed below:

Revolving Credit Agreement--Citibank N.A.	$19,864,635
Note Agreement--Prudential Insurance Co.	2,705,722
Term Loan Agreement--National Bank of Detroit	1,085,000
	$23,655,357

The Company is currently negotiating with the lenders for a waiver of their right to demand immediate payment of borrowings under the agreements. The Company is also attempting to obtain new sources of financing.

The Term Loan Agreement bears interest at 10-1/2% and is collateralized by real property with a carrying value of approximately $1,500,000. Under the other two agreements, the lenders have security interests in all otherwise unencumbered revenue equipment and real property and various other assets of the Company. Interest is payable under the Revolving Credit Agreement at 3/4% (1% after February 1, 1980) over the base rate of Citibank, and at a rate of 9-1/8% on the Prudential Note Agreement.

On January 4, 1980, the Company borrowed $1,300,000 from an insurance company with interest prepaid at 15-1/4%. This loan is payable July 1, 1980, and is collateralized by a second mortgage on the Company's home office building.

EXAMPLE Change in accounting principle

FLEXI-VAN CORPORATION
(Report of Independent Auditors)

To the Stockholders and Board of Directors,
Flexi-Van Corporation:

We have examined the consolidated balance sheets of Flexi-Van Corporation (a New York corporation) and subsidiary companies as of December 31, 1979, and 1978, and the related statements of income, amount contributed in excess of par value, retained earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Flexi-Van Corporation and subsidiary companies as of December 31, 1979, and 1978, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles which, except for the change (with which we concur) in the method of accounting for investment tax credits in compliance with the newly adopted Financial Accounting Standards Board Interpretation No. 25, have been applied on a consistent basis.

(Notes to Financial Statements)

2. Federal and State Income Taxes

In 1979 the Financial Accounting Standards Board issued its Interpretation No. 25 regarding the recording of investment tax credits. Accordingly, the Company, in compliance with this Interpretation, changed its method of accounting for investment tax credits and recognized an additional $5,139,000 ($.89 per share) of such credits in 1979.

BANNER INDUSTRIES, INC.
(Report of Independent Auditors)

To the Stockholders and Board of Directors,
Banner Industries, Inc.:

We have examined the consolidated balance sheets of Banner Industries, Inc. (a Delaware corporation) and Subsidiaries as of June 30, 1979 and 1978, and the related consolidated statements of income, stockholders' equity, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As more fully explained in Notes 2 and 3 to the consolidated financial statements, in 1979 the Company changed its method of accounting for tires on revenue equipment, and further, the Company charged its method of accounting for leases as required by Statement of Financial Accounting Standards No. 13.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of Banner Industries, Inc. and Subsidiaries as of June 30, 1979 and 1978, and the result of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles. In our opinion, except for the change (with which we concur) in the method of accounting for tires on revenue equipment described in Note 2, the accounting principles were applied on a consistent basis after giving retroactive effect to the change (with which we concur) in the method of accounting for leases described in Note 3.

2. Change in Accounting Principle:

In the fourth quarter of fiscal 1979, the Company changed its method of accounting for non-radial tires on revenue equipment used in its transportation operations from the expensing as installed method to a method of capitalization as installed with amortization of the capitalized cost over three years. This new method of accounting was adopted to recognize that the useful life of these assets exceeds a one-year period, and has been applied retroactively to tires installed in prior years. The effect of the change in 1979 was to increase income before cumulative effect of change in accounting by $213,000 ($.05 per share). An adjustment of $264,000 (after reduction for income taxes of $234,000) to apply retroactively the new method is included in 1979 net income. The pro forma amounts shown on the consolidated statements of income have been adjusted for the effect of retroactive application on tire expense and related income taxes.

3. Leases:

In 1979, the Company retroactively implemented the provisions of FASB Statement No. 13 which required that leases meeting certain critera (capital leases) be capitalized. The cumulative difference between the lease payments previously expensed and the depreciation and interest expense calculated for such capital leases was determined to be insignificant and accordingly retained earnings as of July 1, 1977, and the results of operations for 1978, have not been restated. Assets under capital leases of $4,923,000 (net of accumulated depreciation of $2,178,000) have been retroactively capitalized at June 30, 1978, and the related lease obligations are included in long-term debt in the consolidated balance sheet. The effect of the change on 1979 income was not material.

The following is an analysis of the assets under capital leases included in property, plant and equipment:

	1979	1978
Land	$ 228,860	$ 116,160
Buildings and improvements	9,521,535	7,862,026
Transportation equipment	3,772,058	1,158,336
Machinery and equipment	1,302,203	912,372
	$14,824,656	$10,048,894
Less--Accumulated depreciation	(3,456,322)	(2,671,974)
	$11,368,334	$ 7,376,920

Future minimum lease payments are as follows:

	Capital Leases	Operating Leases
1980	$ 1,975,000	$ 1,290,000
1981	1,877,000	1,092,000
1982	1,819,000	1,086,000
1983	1,801,000	892,000
1984	1,664,000	524,000
Thereafter	11,813,000	4,335,000
	$20,949,000	$ 9,219,000
Less--Amount representing interest	(8,328,000)	
Present value of capital lease payments	$12,621,000	

Rental expense on operating leases for the years ended June 30, 1979 and 1978 was $1,220,000 and $860,000, respectively.

SECTION K

Reporting to SEC on Form 10-K

Examples taken from Form 10-K reports filed with the SEC by certain surveyed companies are included in this section.

Supplementary notes to financial statements

Footnotes in addition to those contained in the annual report to the shareholders were included in several 10-K's obtained from the surveyed companies. These footnotes provided additional information, not required by generally accepted accounting principles, but necessary to meet SEC reporting requirements. Examples of such supplementary footnotes follow.

EXAMPLES Additional detail of balance sheet classifications

LIQUID TRANSPORTERS, INC.
(Form 10-K)

Note L. Prepaid Expenses

Prepaid expenses consist of the following:

	December 31	
	1979	1978
Tires & Tubes	$ 411,160	$328,565
Other	616,938	424,641
	$1,028,098	$753,206

Note M. Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities consist of the following:

	December 31	
	1979	1978
Accrued taxes other than on income	$ 111,966	$183,781
Accrued pension plan expense	225,691	163,990
Other	687,738	587,049
	$1,025,395	$934,820

EXAMPLE Disclosure of incentive compensation plans

DELTA CALIFORNIA INDUSTRIES
(Form 10-K)

Note G. Incentive plans and reserve common stock

Current profit-sharing plans provide for payments to participating executive and administrative personnel based on various performance criteria. Charges to operations under the plans amounted to $588,000 in 1979 and $770,000 in 1978.

Under an employee stock purchase plan established in 1979, eligible employees may subscribe to purchase common stock of the Company by means of payroll deductions over a two-year period. In an initial offering, purchase subscriptions were received for 24,954 shares to become issuable in March, 1981 at $7.30 per share. After cancellations, subscriptions for 22,808 shares remained outstanding at December 31, 1979.

An employee stock ownership plan (TRASOP) provides for the contribution by the Company of an amount equal to an additional one percent investment tax credit allowed by the Tax Reduction Act of 1975, as amended. Contributions to the plan have not been material.

At December 31, 1979, a total of 150,500 shares of common stock are reserved for issuance, at $10 a share, if the remaining outstanding 7% subordinated convertible debentures (Note C) should be converted.

EXAMPLE Supplemental disclosure of stock options

McLEAN TRUCKING COMPANY
(Form 10-K)

Note 15--Shareholder's Equity: Reference is made to Note 6 of Notes to Consolidated Financial statements incorporated herein by reference. The following table relates to options outstanding, becoming exercisable, and exercised during fiscal 1979 and 1978:

	Number Of	Option Price		Corresponding Market Price	
Options (1)	Shares	Avg. Per Share	Total	Avg. Per Share	Total
Outstanding at:				(a)	
June 30, 1977	196,038	$19.68	$3,858,239	$19.68	$3,853,259
June 30, 1978	175,128	$19.91	$3,486,317	$19.91	$3,486,317
June 30, 1979	186,280	$15.82	$2,947,766	$15.82	$2,947,766
Became excersiable:				(b)	
During fiscal 1978	44,114	$19.89	$ 877,482	$19.75	$ 871,089
During fiscal 1979	6,050	$21.08	$ 127,520	$14.84	$ 89,778
Exercised:				(c)	
During fiscal 1978	6,204	$15.99	$ 99,199	$20.37	$ 126,393
During fiscal 1979	500	$17.81	$ 8,906	$17.38	$ 8,688

(a) At the dates options were granted.
(b) At the dates options became exercisable.
(c) At the dates options were exercised.

Note (1) The dates of options are 7-7-72, 8-4-72, 4-5-73, 5-3-73, 7-12-73, 5-8-74, 2-11-75, 7-2-75, 1-6-77, 2-10-77, 5-9-78, 7-13-78 and 5-8-79.

Under the plan, options become exercisable on a cumulative basis of 25% per year in each of the second, third, and fourth years of the option term and in the fifth year all of the remaining shares, or any part thereof to which the option relates may be exercised.

At the time options are exercised, the par value of the shares issued is credited to common stock and the excess of the proceeds over the par value is credited to additional capital. There are no charges or credits to income in connection with the options.

EXAMPLE Supplementary income statement information

CONSOLIDATED FREIGHTWAYS, INC.
(Form 10-K)

Supplementary Income Statement Information

The following amounts have been included in the "Costs and Expenses" section of the Statements of Consolidated Income for the years ended December 31, 1979 and 1978:

	December 31	
	1979	1978
	(In Thousands)	
Maintenance and repairs	$83,777	$72,365
Taxes other than income taxes		
Payroll	$39,016	$29,932
Fuel	12,631	12,835
Vehicle registration and licenses	7,956	8,147
Property	5,471	5,808
Other	2,178	2,233
Total Taxes Other than Income Taxes	$67,252	$58,955

EXAMPLE Estimated replacement cost (unaudited)

YELLOW FREIGHT SYSTEM, INC.
(Form 10-K)

Note 2. Replacement Cost Information (Unaudited).

The following summary sets forth the property and related accumulated depreciation of Yellow Freight System, Inc. at December 31, 1979 and 1978. This information is compared with the estimated cost to replace such assets at these dates along with the accumulated depreciation that would have been provided had past depreciaton accruals contemplated such replacement costs. In addition, depreciation expense as shown on the statements of consolidated income for the years ended December 31, 1979 and 1978 is compared with the depreciation expense that would have been computed on the basis of the estimated average replacement cost of depreciable operating property.

	1979		1978	
	Historical Cost	Replacement Cost	Historical Cost	Replacement Cost
		(In Thousands)		
Structures	$117,979	$166,395	$100,259	$140,824
Revenue Equipment	258,789	341,477	223,136	302,599
Other Operating Property	23,408	34,975	20,197	30,314
	$400,176	$542,847	$343,592	$473,737
Less-Accumulated Depreciation	142,573	194,854	126,542	173,538
	$257,603	$347,993	$217,050	$300,199
Land	45,540		39,043	
Nonoperating Structures-Net	3,198		3,008	
Nonoperating Other-Net	189		245	
Net Operating Property	$306,530		$259,346	
Depreciation Expense	$ 43,579	$ 56,760	$ 39,525	$ 52,090

General

For purposes of this disclosure, replacement cost of operting property is defined as the lowest amount in terms of current prices at December 31, 1979, and December 31, 1978, that would have to be paid in the normal course of business to obtain new assets that would allow the company to provide its existing level of service within the current set of legal and technological constraints imposed by authorities in those markets.

Replacement cost (or net depreciated replacement cost) is not intended to represent the current value of assets existing at December 31, 1979 and 1978. Furthermore, replacement costs are not indicative of the company's actual plans for, or costs of, actual replacement of existing operating capability. This replacement will take place as part of the normal future course of business at prices that will prevail at the actual time of replacement given the then current legal and technological constraints.

The depreciation based on estimated replacement cost is not an engineering estimate of the loss of service inherent in the existing fixed assets during the past year; rather it is an attempt to measure the extent to which the company should be making provision annually for funding replacement of its existing assets, assuming no expansion of operations and no future increase in costs.

Although management believes that replacing its existing assets with new and technologically improved structures and equipment would result in operating expense savings, no attempt has been made to estimate the effect of such cost savings on the company's operations.

Operating Property

The category of structures consists of terminal facilities and the corporate general office. The replacement cost for terminal facilities was estimated by use of a multiple regression model specifically developed for the motor carrier industry. This model utilized construction costs to build facilities of current design that would provide equivalent operating capabilities for those facilities now in existence. If the existing terminal facilities were replaced at this time, certain of them would be modified due to the changing nature of the operation since they were first constructed. Therefore, management assumed these modifications would be made in arriving at a basis upon which the replacement cost was estimated.

The replacement cost of the general office facility for which there has been no significant design or technological changes since construction date was estimated by trending the cost of the assets to current cost levels using appropriate price indexes.

Excluded from replacement cost data are nonoperating facilities that, in management's opinion, would not be replaced at the end of their useful lives. Their historical cost totals $4,916,000 and the accumulated depreciaion totals $1,718,000 at December 31, 1979. At December 31, 1978, historical cost and accumulated depreciation totaled $4,510,000 and $1,502,000, respectively.

Replacement cost for all revenue equipment was estimated by applying the updated cost of recent purchases of similar equipment to all existing units. The costs used in calculating revenue equipment replacements embody the latest operating efficiencies available, as well as additions to the equipment necessary to meet government-manadated standards and requirements of collective bargaining agreements.

Due to the slowdown in the nation's economy, the company is reducing its revenue equipment fleet in 1980. Because this reduction is expected to be temporary in nature, and its impact on replacement cost is immaterial, no adjustment was made to the accompanying 1979 replacement cost data. According, replacement cost was calculated on a one-for-one basis which is the company's normal replacement practice.

The replacement cost of other operating property was estimated by one of two methods: trending the cost of the assets to current cost levels using appropriate price indexes, or, by applying the updated costs of recent purchases of similar equipment. Excluded from other operating property replacement cost data are miscellaneous nonoperating assets that, in management's opinion, would not be replaced at the end of their useful lives.

In making the above assumptions for operting property, management is basing its position on normal operating and marketing conditions. These conditions may change in subsequent years, necessitating a re-evaluation of these assumptions.

Depreciation

Replacement cost depreciation was estimated by determining the percentage relationship that historical cost depreciation expense represents to average historical costs, adjusted for fully depreciation assets. This percentage relationship was then applied to the average replacement cost, adjusted for fully depreciated assets, to arrive at replacement cost depreciation.

Net depreciated replacement cost was estimated in a manner similar to depreciation by using the relationship of historical net book value to the historical cost of these assets assumed to be replaced.

Other Assets

Management has determined that due to the rapid turnover of prepaid assets (stationery and printed matter, tires and tubes, materials and supplies), the cost as shown at December 31, 1979 and 1978, fairly approximates replacement cost at these dates. In addition, it is management's opinion that operating expenses as presented in the statements of consolidated income fairly approximate the operating expenses that would result if operating expenses were computed on a replacement cost basis for prepaid assets.

Summary

The replacement cost data herein described have been compiled to comply with the disclosures required by the Securities and Exchange Commission and represent, in the company's view, a reasonable aggregation of such information. However, the replacement cost data have inherent limitations because of the need for substantial subjective judgments in the estimating process. Accordingly, they should not be construed to represent management's intent to replace existing productive capacity; moreover, even if replacement is effected in the manner described, replacement cost may not represent, because of possible future increases in cost levels, the actual future costs to replace existing assets. Additionally, the replacement cost information presented in this disclosure does not consider all the effects of inflation on the company's operation and it would be misleading to use this data to compute "true" net income or shareholders' equity.

Users of these financial statements are reminded of the lack of precision inherent in the preparation of replacement cost data and are cautioned against its simplistic use. No additional value should be assumed by shareholders because the estimated replacement cost of assets exceeds historical cost, nor should the simple insertion of estimated replacement cost data into financial statements prepared on a historical cost basis be attempted.

Financial schedules

Financial schedules are required by Article 5 of Regulation S-X. These schedules provide detailed information underlying certain captions in the financial statements. Article 12 of Regulation S-X prescribes the form and content of these schedules. Examples of such schedules filed by the surveyed companies are provided below.

EXAMPLE Schedule I

TELECOM CORPORATION

Schedule I--Marketable Securities--Other Security Investments
As of December 31, 1979
(In Thousands)

Col. A		Col. B	Col. C	Col. D	Col. E
Name of Issuer and Title of Each Issue	Interest Rate %	Number of Shares or Units Principal Amount of Bonds and Notes	Cost of Each Issue	Market Value of Each Issue at Balance Sheet Date	Amount at Which Each Portfolio of Equity Security Issues and Each Other Security Issue Carried in the Balance Sheet
Marketable securities:					
TeleCom Corporation, parent company:					
Preferred stock:					
Petro-Lewis Corporation		4	$ 51	$ 51	$ 51
Subsidiaries:					
United States Government Treasury Bills	9.75	$ 55	55	55	55
			$ 106	$ 106	$ 106
Other investments:					
TeleCom Corporation, parent company:					
Common stock:					
Spector Industries, Inc.		79	$ 611	$ 795	$ 611
Lion County Safari, Inc.		35	35	35	35
			646	830	646
Subsidiaries:					
Notes receivable of SBIC subsidiary:					
Convertible, subordinated notes and debentures:					
Verna Drilling Company	10	248	248	248	248
McNair Trucklease, Inc.	8.5	445	445	445	445
Thermo Materials Corp.	10	76	76	76	76
Standard Microsystems, Corp.	8	105	105	105	105
Chili's, Inc.	10.5	233	233	233	233
Trans-Modal Corporation	12	400	400	400	400
Blue Ribbon Limited Partnership	14	300	300	300	300
First Decor Noel Corporation	13	400	400	200	200
Loans:					
Unitech, Inc.	12	133	133	133	133
Tellxon Corporation	10	32	32	32	32
Austron, Inc.	8	10	10	10	10
			2,382	2,182	2,182
Less current portion			590	590	590
Notes receivable after one year			$1,792	$1,592	$1,592

TELECOM CORPORATION

Schedule I--Marketable Securities--Other Security Investments
As of December 31, 1979
(In Thousands)

Col. A Name of Issuer and Title of Each Issue	Interest Rate %	Col. B Number of Shares or Units Principal Amount of Bonds and Notes	Col. C Cost of Each Issue	Col. D Market Value of Each Issue at Balance Sheet Date	Col. E Amount at Which Each Portfolio of Equity Security Issues and Each Other Security Issue Carried in the Balance Sheet
Subsidiaries, continued:					
Investment in capital stock of SBCs, SBIC subsidiary:					
Convertible preferred stock:					
First Decor Noel Corporation		100	$ 100	$ 100	$ 100
Wiederkehr Wine Cellars, Inc.		54	229	229	229
Qantel Corporation		3	600	1,057	1,057
Federal Express Corporation		1		125	125
Stanley Swabbing & Well Service, Inc.		9	426	426	426
Common stock:					
Telxon Corporation		186	148	139	139
Standard Microsystems, Corp.		191	198	2,365	2,365
First Decor Noel Corporation		100	100	100	100
Stanley Swabbing & Well Service, Inc.		4	39	39	39
General Leisure Corporation		100	50	150	150
Xynetics, Inc.		22	250	675	675
Western Union Corporation		25	357	544	544
Terrain King Corporation		30	155	360	360
Stewart-Riess Laboratories, Inc.		375	375	375	375
Warrants, options and other stock rights:					
Verna Corporation		93	9	2,129	2,129
Standard Microsystems, Inc.		100	3	844	844
Other warrants, options and stock rights		58	40	14	14
Investment in capital stock of SBC's			3,079	9,671	9,671
Investment by SBIC subsidiary			4,871	11,263	11,263
			$5,517	$12,093	$11,909

EXAMPLE Schedule II

REFRIGERATED TRANSPORT CO., INC.

SCHEDULE II—AMOUNTS RECEIVABLE FROM UNDERWRITERS, PROMOTERS, DIRECTORS, OFFICERS, EMPLOYEES, AND PRINCIPAL HOLDERS (OTHER THAN AFFILIATES) OF EQUITY SECURITIES OF THE PERSON AND ITS AFFILIATES

Years Ended December 30, 1979 And December 31, 1978

COL. A	COL. B	COL. C	COL. D		COL. E	
			DEDUCTIONS		BALANCE AT END OF PERIOD	
NAME OF DEBTOR	Balance at Beginning of Period	Additions	(1) Amounts Collected	(2) Amounts Written Off	(1) Current	(2) Not Current
Period Ended December 31, 1978						
Lamar Beauchamp Chairman of the Board	$36,000	$82,000	$36,000		$82,000	
Richard Beauchamp President	$20,000	$58,000	$58,000		$20,000	
Period Ended December 30, 1979						
Lamar Beauchamp Chairman of the Board	$82,000	$ -0-	$47,000		$35,000	
Richard Beauchamp President	$20,000	$30,000	$10,000		$40,000	

Note: The highest amounts due by the above listed officers during 1979 and 1978 were:

	1979	1978
Lamar Beauchamp	$82,000	$122,000
Richard Beauchamp	$42,000	$ 67,000

There are no definitive repayment terms and these receivables do not bear interest

EXAMPLE Schedule III

CHEMICAL LEAMAN CORPORATION
(Parent Company)

SCHEDULE III—INVESTMENTS IN, EQUITY IN EARNINGS OF, AND DIVIDENDS RECEIVED FROM AFFILIATES AND OTHER PERSONS

January 1, 1979 to December 31, 1979

COL. A	COL. B		COL. C		COL. D		COL. E		COL. F
NAME OF ISSUER AND DESCRIPTION OF INVESTMENT	BALANCE AT BEGINNING OF PERIOD		ADDITIONS		DEDUCTIONS		BALANCE AT END OF PERIOD		Dividends Received During the Period from Investments Not Accounted for by the Equity Method
	(1) Number of Shares or Units. Principal Amount of Bonds and Notes	(2) Amount in Dollars	(1) Equity Taken Up in Earnings (Losses) of Affiliates and Other persons for the Period	(2) Other	(1) Distribution of Earnings By Persons in Which Earnings (Losses) Were Taken Up	(2) Other	(1) Number of Shares or Units. Principal Amount of Bonds and Notes	(2) Amount in Dollars	
Consolidated Subsidiaries:									
Chemical Leaman Tank Lines, Inc.	1,303,283 100%	$36,668,000	$3,604,000		$1,824,000		1,303,283 100%	$38,448,000	
Chemical Properties, Inc.	162.5 100%	1,341,000	(117,000)		11,000		162.5 100%	1,213,000	
Chemical Leasing Corporation	5,000 100%	10,000	854,000		---		5,000 100%	864,000	
Tank Service Company	100 100%	142,000	(10,000)		---		100 100%	132,000	
Chemical Leaman Container Corp.				$10,000			1,000 100%	10,000	
		$38,161,000	$4,331,000	$10,000	$1,835,000			$40,667,000	

(A) Date of Incorporation--August 8, 1979

EXAMPLE Schedule IV

TELECOM CORPORATION

Schedule IV--Indebtedness Of Affiliates And
Other Persons--Not Current
For The Year Ended December 31, 1979
(In Thousands)

Col. A Name of Person	Col. B Balance at Beginning of period	Col. C Balance at End of Period
TeleCom Corporation, parent company		
RBM Transportation Systems, Inc.	$7,319	$11,676(A)
Corporate Realty 71, Inc.	1,699	2,110
Texas Capital Corporation	338	250
Meyer Systems Corporation	42	219
Meyer Machine Company		4
Comfort Supply, Inc.	386	3,052(B)
KA Enterprises, Inc.		68
	$9,784	$17,379

Notes:

(A) The increase in non-current indebtedness results from advances made to RBM Transportation Systems, Inc. for purchases of motor carrier operating equipment.

(B) The increase in non-current indebtedness results from advances made to Comfort Supply, Inc. for retirement of a line of credit.

EXAMPLE Schedule V

THE BEKINS COMPANY

SCHEDULE V—PROPERTY, PLANT AND EQUIPMENT

FOR THE YEARS ENDED DECEMBER 31, 1979 AND 1978
(Thousands of dollars)

COL. A	COL. B	COL. C	COL. D	COL. E	COL. F
CLASSIFICATION	Balance at Beginning of Period	Additions at Cost	Retirements	Other Changes—Add (Deduct)—Describe	Balance at End of Period
Year ended December 31, 1979:					
Land	$ 8,231	$ --	$ 94	$ --	$ 8,137
Buildings	28,912	977	250	122 (4)	29,761
Automotive equipment	26,130	5,234 (1)	1,150	272 (4)	30,486
Furniture & fixtures	13,494	1,636 (2)	96	92 (4)	15,126
Leased equipment under capital leases	2,266 (3)	--	--	--	2,266
Rental Furniture	--	2,619	2,187	4,372	4,804
Total	$79,033	$10,466	$3,777	$4,858	$90,580
Year ended December 31, 1978:					
Land	$ 8,231	$ --	$ --	$ --	$ 8,231
Buildings	27,927	1,089	104	--	28,912
Automotive equipment	21,338	4,798 (1)	746	740 (5)	26,130
Furniture & fixtures	11,723	1,787 (2)	16	--	13,494
Lease equipment under capital leases	2,266 (3)	--	--	--	2,266
Total	$71,485	$ 7,674	$ 866	$ 740	$79,033

(1) Purchase of tractors and trailers for local and long-distance moves.
(2) Current replacement of racks, pallets and other warehouse equipment.
(3) Lease on computer equipment capitalized at $2,266,000. See Note H to the financial statements.
(4) Property additions from acquisition of U-Rent Furniture Co.
(5) Automotive equipment from acquisition of New Products Company--net.

EXAMPLE Schedule VI

SPECTOR INDUSTRIES, INC.

SCHEDULE VI—ACCUMULATED DEPRECIATION, DEPLETION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT

December 31, 1978 and 1979

COL. A	COL. B	COL. C	COL. D	COL. E	COL. F
DESCRIPTION	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Retirements	Other Changes—Add (Deduct)—Describe	Balance at End of Period
Year ended December 31, 1978:					
Structures	$ 8,639,233 (B)	871,218	132,249	(4,105,765) (A) (C)	5,272,437
Revenue equipment	31,864,554	8,653,748	9,826,562	(108,032) (A)	30,583,708
Service equipment and other	5,094,354 (B)	594,753	302,767		5,386,340
	45,598,141	10,119,719	10,261,578	(4,213,797)	41,242,485
Structures held for sale	14,077	-0-	14,077	-0-	-0-
	$45,612,218	10,119,719	10,275,655	(4,213,797)	41,242,485
Year ended December 31, 1979:					
Structures	$ 5,272,437	898,978	189,576	26,026 (A)	6,007,865
Revenue equipment	30,583,708	11,667,871	8,377,854	(9,569) (A)	33,864,156
Service equipment and other	5,386,340	601,720	1,224,560	(16,457) (A)	4,747,043
	$41,242,485	13,168,569	9,791,990	-0-	44,619,064

Notes:

(A) Reclassification between accounts.
(B) Restated for FASB #13.
(C) Retirement of accumulated depreciation on sale of structures in leaseback agreement. (See Note 7 in Notes to Consolidated Financial Statements.) $(4,105,942)

Other (Note A) 177

$(4,105,765)

EXAMPLE Schedule VII

MID-AMERICAN LINES, INC.

COL. A	COL. B	COL. C	COL. D		COL. E	COL. F
			DEDUCTIONS			
DESCRIPTION	Balance at Beginning of Period	Additions at Cost	Charged to Costs and Expenses	Charged to Other Accounts	Other Changes-- Add (Deduct)	Balance at Close of Period
For The Year Ended December 31, 1979:						
Franchises, operating rights and other intangibles	$1,909,565	$5,463	$ -	$ -	$ -	$1,915,028
For The Year Ended December 31, 1978:						
Franchises, operating rights and other intangibles	$1,909,565	$ -	$ -	$ -	$ -	$1,909,565

EXAMPLES Schedule VIII

REFRIGERATED TRANSPORT CO., INC.

SCHEDULE VIII—ACCUMULATED DEPRECIATION AND AMORTIZATION OF INTANGIBLE ASSETS

YEARS ENDED DECEMBER 30, 1979 AND DECEMBER 31, 1978

COL. A	COL. B	COL. C		COL. D	COL. E
		ADDITIONS			
DESCRIPTION	Balance at Beginning of Period	(1) Charged to Costs and Expenses	(2) Charged to Other Accounts—Describe	Deductions—Describe	Balance at End of Period
Period ended December 31, 1978					
Operating rights and franchises	$225,000	$60,000			$315,000
Period ended December 30, 1979					
Operating rights and franchises	$315,000	$75,000			$390,000

EXAMPLE Schedule IX

MCLEAN TRUCKING COMPANY

SCHEDULE IX—BONDS, MORTGAGES AND SIMILAR DEBT

June 30, 1979

COL. A	COL. B	COL. C	COL. D		COL. E	COL. F	COL. G	COL. H	
NAME OF ISSUER AND TITLE OF EACH ISSUE	Amount Authorized by Indenture	Amount Issued and Not Retired or Cancelled	AMOUNT INCLUDED IN COLUMN C, WHICH IS		Amount Included in Sum Extended Under Caption "Bonds, Mortgages and Similar Debt" in Related Balance Sheet	Amount in Sinking and Other Special Funds of Issuer Thereof	Amount Pledged by Issuer Thereof	AMOUNT HELD BY AFFILIATES FOR WHICH STATEMENTS ARE FILED HEREWITH	
			(1) Held by or for Account of Issuer Thereof	(2) Not Held by or for Account of Issuer Thereof				(1) Persons Included in Consolidated Statement	(2) Others
McLean Trucking Company:									
Revolving Credit Agreement (1)	$30,000,000	$23,000,000		$23,000,000	$23,000,000				
Consultation Fee Re: Crescent Motor Lines acquisition	N/A	88,456		88,456	88,456				
Malja Corporation:									
Real Estate Mortgages (1)	47,225,570	37,502,779		37,502,779	37,502,779				
Malja Second Corporation:									
Real Estate Mortgages (1)	2,700,000	149,959		149,959	149,959				
Malja Redevelopment Corporation:									
Real Estate Mortgages (1)	810,000	64,243		64,243	64,243				
Purchase of ONC Freight Systems (1)	N/A	30,835,327		30,835,327	30,835,327				
Winston Refining Company:									
Promissory Note (1)	4,000,000	2,150,000		2,150,000	2,150,000				
Seller's Note Assumed (1)	496,206	165,402		165,402	165,402				
		$93,956,166		$93,956,166	93,956,166				
Less current maturities of long-term debt					5,392,195				
					$88,563,971				

(1) See Note 4 to the consolidated financial statements for additional description of these securities

EXAMPLE Schedule X

ARKANSAS BEST CORPORATION

SCHEDULE X—INDEBTEDNESS TO AFFILIATES AND OTHER PERSONS—NOT CURRENT

For the Years Ended December 31, 1979 and December 31, 1978

COL. A	COL. B	COL. C
NAME OF PERSON	Balance at Beginning of Period	Balance at End of Period
For the Year Ended December 31, 1979:		
ABC Treadco, Inc.	$ 100,000	$ -
Data-Tronics Corp.	400,000	740,000 (B)
Container Carrier Corporation	160,000	325,000 (B)
Arkansas-Best Freight System Inc.	-	9,900,000 (A)
	$ 660,000	$10,965,000
For the Year Ended December 31, 1978:		
ABC Treadcko, Inc.	$2,000,000	$ 100,000
Data-Tronics Corp.	-	400,000 (B)
Container Carrier Corporation	-	160,000 (B)
	$2,000,000	$ 660,000

Note A--Represents amounts owned as a result of the sale of the Navajo Freight Lines, Inc. terminal properties to ABC Treadco, Inc., through Arkansas Best Corporation.

Note B--Borrowings of excess cash balances of these subsidiaries for the working capital needs of the parent company or other subsidiaries.

EXAMPLE Schedule XII

PENN YAN EXPRESS, INC.

Valuation and Qualifying Accounts and Reserves

Years ended December 29, 1979 and December 30, 1978

Description	Balance at beginning of period	Additions charged to costs and expenses	Net doubtful accounts written off	Balance at end of period
December 29, 1979				
Consolidated: Allowance for doubtful receivables	$59,000	58,223	27,223	90,000
Company: Allowance for doubtful receivables	$59,000	58,223	27,223	90,000
December 30, 1978				
Consolidated: Allowance for doubtful receivables	$56,700	20,590	18,290	59,000
Company: Allowance for doutbful receivables	$56,700	20,590	18,290	59,000

EXAMPLE Schedule XIII

LEASEWAY TRANSPORTATION CORP.

CAPITAL STOCK

December 31, 1979

Col. A	Col. B	Col. C	Col. D		Col. E		Col. F		Col. G
			Number of Shares Included in Column C Which Are		Shares Outstanding as Shown on or Included in Related Balance Sheet under Caption "Capital Stock		Number of Shares Held by Affiliates for Which Statements Are Filed Herewith--		
Name of Issuer and Title of Issue	Number of Shares Authorized By Charter	Number of Shares Issued and not Retired or Cancelled	Held by or for Account of Issuer Thereof	Not Held by or for Account of Issuer Thereof	Number	Amount at Which Carried	Persons Included in Consolidated Statements	Others	Number of Shares Reserved for Offices and Employees
Leaseway Transportation Corp.:									
Preferred Stock, no par value	1,000,000	None	None	None	None	None	None	None	None
Common Stock, $1 par value	30,000,000	12,296,818	439,480	11,857,338	$11,857,338	$11,857,338(B)	None	None	307,580
Consolidated Subsidiaries (A):									
Vehicle Leasing, Inc. (80% owned)									
Common Stock, no par value	1,000	1,000	None	1,000	200	$ 96,013	800	None	None
Signal Delivery Service, Inc. (80% owned)									
Common Stock, no par value	3,000	2,500	None	2,500	500	6,244,877	2,000	None	None
Total						$ 6,340,890(C)			

(A) Capital stocks of all other subsidiaries in the consolidated financial statements at December 31, 1979 have not been included in the schedule since all of the outstanding shares of each issue of capital shares of each subsidiary are held by one or more persons included in such consolidated statements and the answer to Column G is none.

(B) After deducting treasury shares at par value.

(C) Shown on the consolidated balance sheet at December 31, 1979 under the caption "Minority Interests in Subsidiaries."

EXAMPLE Schedule XVI

LIQUID TRANSPORTERS, INC.

SCHEDULE XVI--SUPPLEMENTARY INCOME STATEMENT INFORMATION

December 31, 1979

Item	Charged to Costs and Expenses	
	Parent	Consolidated
Maintenance and repairs	$2,356,883	$4,128,076
Depreciation, depletion and amortization of property, plant and equipment	1,285,426	2,601,337
Depreciation and amortization of intangible assets	*	*
Taxes, other than income taxes	725,652(1)	1,242,454
Rents	*	*
Royalties	*	*
Advertising costs	*	*
Research and development costs	*	*

(1) Includes the following:

Fuel taxes	$ 218,125	$ 350,747
Payroll taxes	329,589	449,943
Licenses and Fees	119,514	248,418
Other	58,424	193,346
	$ 725,652	$1,242,454

*Less than 1% of total sales.

(continued)

SCHEDULE XVI--SUPPLEMENTARY INCOME STATEMENT INFORMATION

December 31, 1978

Item	Charged to Costs and Expenses	
	Parent	Consolidated
Maintenance and repairs	$1,829,321	$3,542,518
Depreciation, depletion and amortization of property, plant and equipment	1,177,825	2,319,668
Depreciation and amortization of intangible assets	*	*
Taxes, other than income taxes	600,350(1)	1,131,204(1)
Rents	*	*
Royalties	*	*
Advertising costs	*	*
Research and development costs	*	*

(1) Includes the following:

Fuel taxes	$ 206,930	$ 340,740
Payroll taxes	229,983	350,337
Licenses and Fees	132,837	273,525
Other	30,600	166,602
	$ 600,350	$1,131,204

*Less than 1% of total sales.

APPENDIX 1

Summary of Replacement Cost Data

Certain companies (see Section I for criteria and FASB Statement No. 33 transition rules) are required to include replacement cost data in their Form 10-K's filed annually with the SEC. (See Section K for an example of disclosure.) The table shown herein summarizes the data for four of the sur- veyed companies as to the impact on net income, primary earnings per share and return on equity had replacement cost been used to determine net income and equity. All of the four companies selected are principally motor carriers with no significant non-motor carrier operations.

(in thousands)

	1979			1978		
	Historical Cost Basis	Replacement Cost Basis	Decrease	Historical Cost Basis	Replacement Cost Basis	Decrease
Net Income:						
Roadway Express, Inc.	$57,193	$46,961	$10,232	$56,917	$48,366	$8,551
Yellow Freight System, Inc.	20,735	13,617	7,118	39,025	32,491	6,534
McLean Trucking Company	8,120	2,619	5,501	15,416	11,781	3,635
Overnite Transportation Company	17,085	13,845	3,240	13,593	10,993	2,600
Primary Earnings Per Share:						
Roadway Express, Inc.	2.85	2.00	.85	2.78	2.36	.42
Yellow Freight System, Inc.	1.45	.95	.50	2.73	2.27	.46
McLean Trucking Company	1.44	.46	.98	2.74	2.09	.65
Overnite Transportation Company	5.31	4.00	1.31	4.26	3.45	.81
Return on Equity:						
Roadway Express, Inc.	20.1%	16.5%	3.6%	21.2%	18.0%	3.2%
Yellow Freight System, Inc.	11.3	7.4	3.9	20.3	16.9	3.4
McLean Trucking Company	8.4	2.7	5.7	15.7	12.0	3.7
Overnite Transportation Company	21.0	16.4	4.6	19.6	15.9	4.0

Company Names and Index of Excerpts

Following are the names of the 43 motor carrier companies whose 1979 annual reports were included in this survey. The company names are those under which the annual report was issued. Pages on which excerpts from the company's annual report may be found are indicated. For ease of reference the word "the" has been eliminated in all cases in which it is part of the company's name.

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